ROUTLEDGE ADVANCES IN HETERODOX ECONOMICS

Marx, Veblen, and the Foundations of Heterodox Economics

Essays in honor of John F. Henry

Edited by Tae-Hee Jo and Frederic S. Lee

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Routledge
Taylor & Francis Group
LONDON AND NEW YORK

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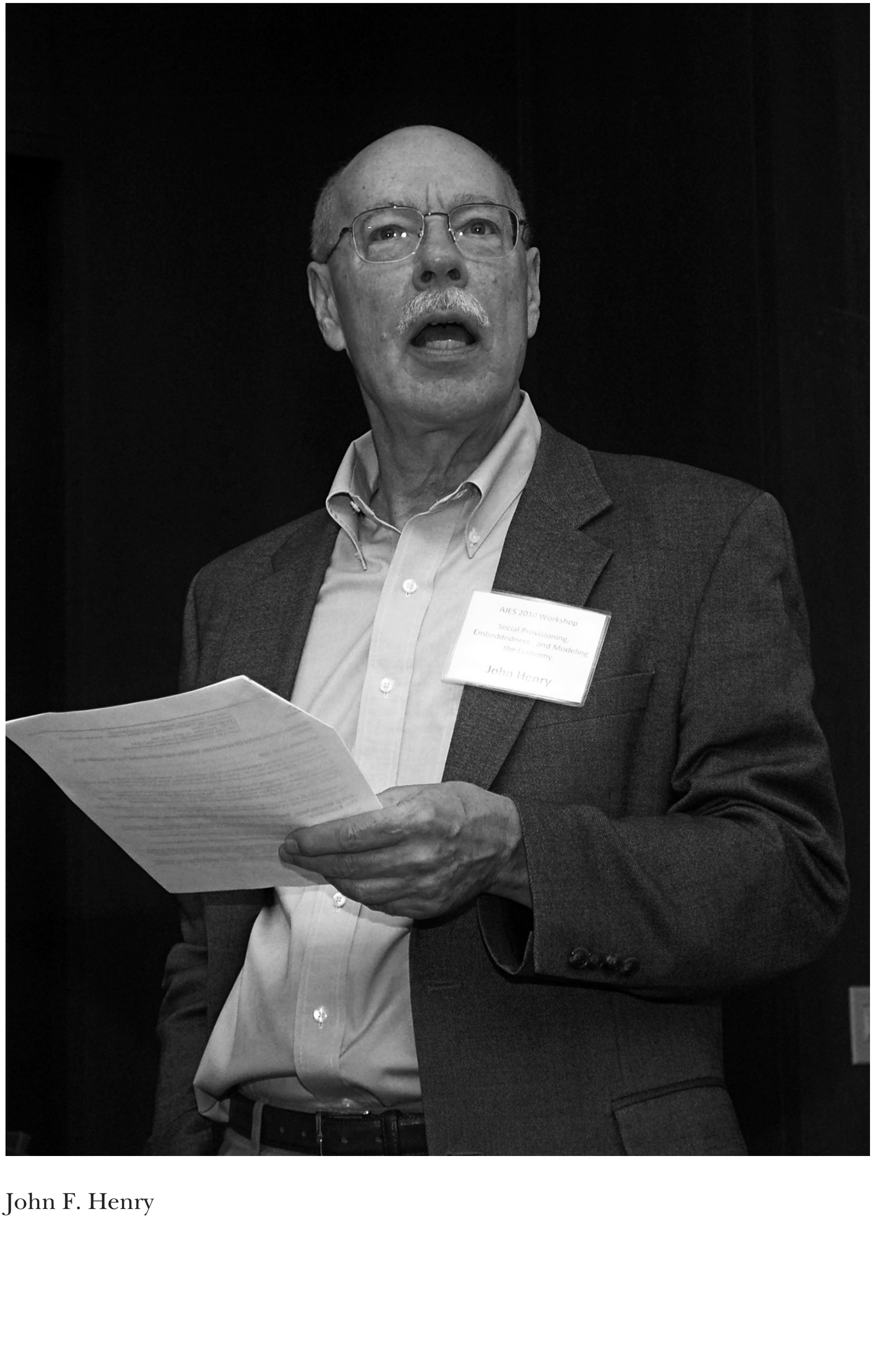
John F. Henry is an eminent economist who has made important contributions to heterodox economics drawing on Adam Smith, Karl Marx, Thorstein Veblen, and John Maynard Keynes. His historical approach offers radical insights into the evolution of ideas (ideologies and theories) giving rise to and/or induced by the changes in capitalist society. Chapters collected in this Festschrift not only evaluate John Henry's contributions in connection to Marx's and Veblen's theories, but also apply them to the socio-economic issues in the twenty-first century.

In Part I leading heterodox economists in the traditions of Marxism, Post Keynesianism, and Institutionalism critically examine Marx's and Veblen's theoretical frameworks (and their connections to each other) that have become the foundations of heterodox economics. Chapters in Part II showcase alternative theoretical explanations inspired by Marx, Veblen, and Henry. Topics in this Part include financial crisis, financialization, capital accumulation, economics teaching, and the historical relationship between money and class society. Part III is devoted to John Henry's heterodox economics encapsulated in his "farewell" lecture, interview, and bibliography.

Chapters in this book, individually and collectively, make an important point that the history of economic thought (or historical analysis of economic theory and policy) is an integral part of developing heterodox economics as an alternative theoretical framework. Anyone who is troubled by the recurring failure of capitalism as well as mainstream economics will find this book well worth reading.

Tae-Hee Jo is Associate Professor of Economics at the State University of New York, Buffalo State, USA.

Frederic S. Lee was Professor of Economics at the University of Missouri-Kansas City, USA.


AJES 2010 Workshop
Social Provisioning,
Embeddedness, and Modeling
the Economy
John Henry

John F. Henry

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John F. Henry is Professor Emeritus, California State University, Sacramento (1970–2004) and Visiting Research Professor at University of Missouri-Kansas City (2005–2014). He obtained his PhD from McGill University in 1974 under the supervision of Athanasios (Tom) Asimakopulos. Henry has made enormous contributions to heterodox economics, in particular, in the fields of history of economic thought, economic history, and political economy. He is the author of two seminal books, *The Making of Neoclassical Economics* (Unwin Hyman, 1990; reprinted by Routledge, 2011) and *John Bates Clark* (Macmillan, 1995). He has published over 50 journal articles and book reviews in the *Journal of Economic Issues*, *Journal of the History of Economics Thought*, *History of Political Economy*, *Forum for Social Economics*, *Review of Social Economy*, *Review of Political Economy*, *Journal of Post Keynesian Economics*, *History of Economics Review*, and *Studi e Note di Economia*. Henry has served various economics associations for many years including presidency of the Association for Institutional Thought, member of the Steering Committee of the International Confederation of Association for Pluralism in Economics, and membership on the editorial boards of *Forum for Social Economics* and *Journal of Economic Issues*. Most importantly, Henry has been an influential educator for over 40 years of his academic career who has liberated many students (including contributors to this volume, Seccareccia, Wray, Todorova, Semenova, and Jo) from the "illusions" of our time.

Tae-Hee Jo is Associate Professor of Economics at the State University of New York, Buffalo State. He is the former co-editor of the *Heterodox Economics Newsletter* (2010–2013). He is also co-editor of *Advancing the Frontiers of Heterodox Economics: Essays in Honor of Frederic S. Lee* (Routledge, 2015), *Heterodox Analysis of Financial Crisis and Reform* (Edward Elgar, 2011), and a special issue of *On the Horizon* (2012). He has also published articles and book reviews in the *American Journal of Economics and Sociology*, *Journal of Economic Issues*, *Forum for Social Economics*, *Review of*

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Frederic S. Lee (1949–2014) was Professor of Economics at the University of Missouri-Kansas City. He was the founding editor of the *Heterodox Economics Newsletter* (2004–2009), the editor of the *American Journal of Economics and Sociology* (2009–2013), the president of the Association for Institutional Thought (2012), the president of the Association for Evolutionary Economics (2015), and the founder and honorary life president of the Association for Heterodox Economics. Lee authored and edited 16 books, including one on *Post Keynesian Price Theory* (Cambridge, 1998) and a second on *A History of Heterodox Economics* (Routledge, 2009); 56 articles; and over 100 book chapters, book entries, book reviews, and notes of one sort or another. His articles appeared in various heterodox journals—*Journal of Economic Issues*, *Journal of Post Keynesian Economics*, *Review of Social Economy*, *Review of Radical Political Economics*, *Review of Political Economy*, *Cambridge Journal of Economics*, *Capital and Class*, and *Metroeconomica*, among others. Fred Lee died on October 23, 2014. For his academic contributions and professional activities, visit his website http://heterodoxnews.com/leefs.

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Preface and acknowledgments

This book is a Festschrift for John F. Henry who has been a critical thinker, prolific economist, eloquent writer, influential and congenial educator over 40 years of his professional career. These characteristics are weaved into his economics, more specifically, history of economic thought as part of heterodox economics, rather than just a prelude to developing heterodox economics. Henry has been concerned particularly with the linkage between theory and society in historical context. Why does a theory emerge and become dominant in a particular time and society? What role does a dominant theory play? Those fundamental questions require, in Henry's terms, a "general theory of the development of general theory itself." More importantly, the historical inquiry into theory led him to the critical analysis of the underlying values, institutions, and social relationships that legitimize the dominant theory as if it is natural, normal, and universal.

Contributors of this volume share Henry's concern. This Festschrift is thus put together in order to (re)cast Henry's (and also Karl Marx's and Thorstein Veblen's) questions so that contemporary heterodox economists make economics suitable for "a world that is more humane, more sensible, more amenable to the provisioning process." With this goal, the overarching theme of this book is "Marx, Veblen, and the Foundations of Heterodox Economics," which is carefully selected on the ground that radical ideas of Marx and Veblen (Part I) are the essential theoretical basis of heterodox economics (Part II) as well as of John Henry's economics (Part III).

The publication of this volume is due to the support of many heterodox economists. Above all, thanks must be given to all the contributors of this volume, who spent their valuable time to write a new chapter in line with the theme of the book and to revise it following editors' demanding comments (and irksome reminders). I would also like to thank reviewers who helped improve respective chapters by giving authors critical and constructive comments. They are Robert Dimand, John E. King, Robert McMaster, Philip A. O'Hara, Mark Peacock, and William Waller. Thanks should also go to *International Journal of Pluralism and Economics Education* (and Jack Reardon,

editor) for giving us a permission to reproduce an expanded and updated version of Wolfram Elsner's 2013 article that appeared in the *Journal*: "Financial Capitalism Trapped in an 'Impossible' Profit Rate. The Infeasibility of a 'Usual' Profit Rate, Considering Fictitious Capital, and Its Redistributive, Ecological, and Political Implications." *International Journal of Pluralism and Economics Education* 4 (3): 243–262.

Fortunately, I have two remarkable mentors—John Henry and Fred Lee. I must thank John Henry for his inspiration and support over the past ten years. It is my privilege to edit chapters written by eminent heterodox economists in honor of John Henry.

Fred Lee gladly agreed to be a co-editor of this volume, although he was already involved in a number of other projects at that time. In fact, it was Fred's idea that we should focus on Marx and Veblen (while my initial thought was "Marxian, Veblenian, and Keynesian Foundations of Heterodox Economics"), because, said Fred, "John [Henry] has always argued that Veblen was Marx's younger brother, something that some Institutionalists deny." Fred and I worked together to invite contributors and to get the proposal approved. However, his health got worse rapidly in the early part of 2014. Still he read several chapters and commented on them until the end of his life. I am sure that if Fred were alive, he would be delighted to see this book published since it is a book for his dear colleague and friend, John. I thank Fred for being a co-editor and mentor. I miss him, and he will be missed by many heterodox economists.

Tae-Hee Jo

Introduction

Marx, Veblen, and Henry

Tae-Hee Jo and Frederic S. Lee

John F. Henry's contributions to heterodox economics

John F. Henry's most important contribution is his systematic critiques of neoclassical economics, which started with *The Making of Neoclassical Economics* (1990) and continues in *John Bates Clark: The Making of a Neoclassical Economist* (1995), and in many other places—in particular, "The Illusion of the Epoch: Neoclassical Economics as a Case Study" (2009a). Henry's critiques draw mainly on both Marx's and Veblen's radical ideas. For some heterodox economists—Marxians and institutionalists alike (even Veblen himself), however, these two traditions cannot be integrated neatly. But we (and Henry as well) think otherwise. We argue in this introductory chapter that heterodox economists have overlooked the connections between Marx and Veblen, and that once they are integrated into an "organic whole" it would "allow us [heterodox economists] to better 'see' capitalism for what it is, and reach some definitive conclusion as to whether it can be tamed—as [Keynes and] Minsky believed—or, as Marx and Veblen proffered, eradicated in the interests of the underlying population" (Henry 2010, 7).

In order for better understanding of Henry's contributions, it would be necessary to introduce his scholarly background. After receiving a PhD degree in 1974 under Professor Athanasios (Tom) Asimakopulos's supervision at McGill University (his dissertation was on "John Bates Clark and the Origins of Neoclassical Economics"), Henry has explored on a wide range of theoretical and social issues, which bear on the development of heterodox economics. His particular interest lies in the reciprocal relationship between theory and society in historical context. Thus he has endeavored to find answers (or the path that would lead to answers) to such questions as to why a theory emerges and becomes dominant, and what role a dominant theory plays in a particular time and society. These fundamental questions require, in Henry's terms, a "general theory of the development of general theory itself" (Henry 1990, xv). More importantly, the historical inquiry into theory has led him to the critical analysis of the underlying values, institutions (especially, property rights and money), and social relationships that legitimize the dominant theory as if it is "natural, normal, and universal." In so doing, Henry brings up his triad—Karl Marx, Thorstein

Veblen, John Maynard Keynes.[1] Henry's general theory incorporating Marx, Veblen, and Keynes is aimed at building a theoretical framework that is more relevant, more convincing, and more robust than the mainstream-neoclassical framework as well as the current streams of heterodoxy (Henry 2009b, 4).

Influenced by Marx, Veblen, and Keynes, Henry as an economist has many colors. Henry is a Marxian—to be precise, his position is "Marxism of Marx" rather than Marxism of orthodox Marxists criticized by Veblen (1906, 1907) and Robinson (1980). Henry is also a radical Veblenian-institutionalist as well as a Post Keynesian. Henry is thus a heterodox economist in a pluralistic sense. Such broadness (or pluralism, if you will), we argue, is most needed in order to advance heterodox economics in the face of the dominant mainstream-neoclassical economics. However, Henry's theoretical position and vision would not make all the present Marxians, Veblenians, and Post Keynesians happy. Nor would Henry expect universal respectability (Henry 2007). Then would Marx, Veblen, and Keynes themselves lend support to Henry's "general theory"? Our argument is that Marx's and Veblen's economics, apart from some theoretical specifics, are not only compatible but also offer the essential foundations for heterodox economics of our time.[2]

The next section is devoted to Henry's account of illusion and intellectual fraud, which offers guidelines that allow us to distinguish insane ideas from sensible theories. In the following section we illustrate the foundational principles of heterodox economics derived mainly from both Marx's and Veblen's economics. Three principles—the theory of monetary production, the social surplus approach, and the principle of effective demand—are integrated from the social provisioning process perspective. In the penultimate section we address a remark as to the necessary conditions for heterodox economics to move forward. A brief outline of the present volume follows.

Illusions and intellectual fraud

In this short introduction it is hard to deal with all the important contributions made by John Henry. Let us stay focused on the overarching theme of Henry's work, and let other contributors of this volume deal with other important issues. Our main concern here is *illusions* created by economic theories. Illusions, once received by the majority of the underlying population, legitimize "intellectual fraud" and, hence, promote the "artificial stupidity" of that population (Briffault 1936, 44–45). On "fraud" Henry notes that:

> Fraud obliterates the criteria through which sane ideas can be distinguished from insane ideas, and rational thought becomes impossible. Mental chaos ensues and those in a privileged position are further

> protected from the potential wrath of the disadvantaged. Indeed, if intellectual stupidity becomes sufficiently well embedded among the underlying population, privilege can be maintained and strengthened without the need of physical coercion.
>
> (Henry 2002, 303)

In a hierarchical class society intellectual fraud has a distinctive purpose and consequence. The purpose is to control the "means of mental production" that is necessary to protect the ownership of the "means of material production" (Marx and Engels 1976, 67). To this end,

> [i]deas are produced that conform to the dominant interests in the current social organization. These ideas, over time, increasingly distance themselves from the social foundation upon which they rest, become increasingly abstract, and eventually acquire the status of universal truth. When these ideas become universal, they are then used to interpret all history from the perspective contained in the ideas themselves—a perspective shaped by the existing society.
>
> (Bell and Henry 2001, 208)

In this respect it is no accident that neoclassical economics emerged along with the dominance of the capitalist class in the nineteenth century. Neoclassical economics lends theoretical and ideological support to the ruling class by way of creating an illusion of capitalist society. That is to say,

> neoclassical economic theory illustrates one form taken by the illusion of the epoch … [its] theoretical formulation stands outside any social order—it is natural; it describes relationships that are consistent with human nature; a (stereotypical) capitalist system conforms to the natural laws embodied in the theory; and all societies conform to these laws regardless of what the external, superficial appearances might be.… The starting point for this program [neoclassicism] is the elimination of society, relationship therein, and historical movement thereof.
>
> (Henry 2009a, 29–30)

The heavy reliance on mathematics is a quite logical outcome of neoclassical economics established upon *asocial* foundations.[3] In Henry's words,

> [s]ince the purpose of the illusion is to develop permanent, nonsocial, universal laws of behavior that force themselves on society and to which society must conform (or face dire consequences), the use of a seemingly scientific method which is of a universal nature—the rules of mathematics, once understood, *are* constant for all time and place—provides a convenient rationalization to cover over the vacuity

> of the argument itself.... Essentially, the mathematizing of the neoclassical (or any other theory) does not ground that theory on a scientific foundation. What it does do is provide a veneer that makes it more difficult to see what lies beneath.
>
> (Henry 2009a, 33, 35, emphasis in original)

If one wishes to formulate a model of an aspect of real world, s/he must carefully choose what is (not) included, what is abstracted, and which method is to be used. For instance, it is not conceivable that a Marxian or Veblenian model assumes optimizing, classless consumers and producers in an institution-free environment. Although there is no perfect model that mirrors the constantly changing, interconnected social world, a heterodox model must be grounded in the real world instead of creating a hypothetical world in the model (Lee 2015; Morgan 2012). Neoclassical economics appears to be precisely the opposite: it "substitute[s] for the capitalist economy an imaginary rational system which has nothing in common with capitalism but the name. The result, it need hardly be said, is an apologetic defense of the *status quo*" (Baran and Sweezy 1965, 25–26).

Furthermore, the "core" (or a set of unquestioned premises) of neoclassical theory that has not changed since its inception in the nineteenth century is contradictory to dialectical (*à la* Marx), evolutionary (*à la* Veblen), and historical (*à la* Keynes) perspectives. The latter perspectives demand that a theory, if it has to examine the social world, be modified as social changes transpire, while the former demands that the given structures of society be normal, natural, and universal (Henry 2009a, 28).

As such, insofar as two opposing classes (that is, the ruling class versus the underlying population) exist in society, at least two contending classes of theory always present themselves: one defending the existing structure of society by way of concealing what is actually happening and/or merely explaining the fictitious world in the model, and the other explaining the real world. The former is the neoclassical illusion. Neoclassical economics has even become more illusory by eliminating the history of economic thought and history itself—as an understanding of the link between theory and society—from the teaching of economics (as evidenced by the disappearance of the term, capitalism, from neoclassical textbooks) and even, thereby, ignoring the reasonable reformist stance in economics, such as Adam Smith, David Ricardo, J. S. Mill, Alfred Marshall, A. C. Pigou, J. M. Keynes, Joseph Schumpeter, J. K. Galbraith (Baran and Sweezy 1965, 28–29).

In the age of money manager capitalism, to use Minsky's (1996) term, a particular illusion is strategically and purposefully promoted by those who benefit most from it. Informed by Ho's (2009) ethnographic study, Henry argues that investment banks (or money managers) are assumed to be useful or productive (in the sense of assisting "investment"), necessary, efficient, and "smarter than average person" (Henry 2012, 1000–1001). None of these characteristics is in fact true. The dominance of investment banks is conducive to the increasing instability in the capitalist economic system as well as the concentration of wealth in the ruling class. Investment banks are neither necessary nor serviceable to the underlying population. Rather they are "parasitic" (Marx 1990b; Veblen 1904). Evidently, the making of the illusion of investment banks is assisted by the neoclassical theory of efficient market and of the shareholder value maximization.

In short, Henry offers a systematic argument that neoclassical economics is an illusion. A theory is an illusion if (1) it is received to be "natural, normal, and universal"; (2) it explains a hypothetical economy that is disconnected from real history (Henry 2003); (3) it is created to promulgate the dominant ideology of the ruling class of the time, which supports "most discordant, fractious, invidious, inegalitarian, aggressive world" (Henry 2007, 4); and, therefore, (4) it defends "the status quo of property rights and social power" (Henry 2009a; Henry and Lee 2009, 18). Henry's position is apparently influenced by and consonant with Marx and Veblen. Henry, however, does not stick to what Marx and Veblen observed over 100 years ago. Instead, his contribution lies in the modification of the general framework put forth by Marx, Veblen, and other notable figures without losing their critical insights into the understanding of capitalism. Thus the first principle of John Henry's general theory is that "everything changes"; if everything changes, nothing is natural, normal, and universal (see Chapter 14 in this volume).

The foundational principles of heterodox economics

Economics is a battlefield of ideas and visions. To win the battle we need to "know the enemy and know yourself." Henry's concern is centered on "know the enemy." Our concern here is about "know yourself," which is intended to promote constructive dialogues among the streams of heterodox economics. This might lead to "winning long-standing contest … in the very long-run" (Henry 2007, 2).

As discussed above, theory entails a symbiotic relationship with society. The capitalist social order depends upon the structure of social classes that governs the relationship between classes. The material as well as mental means of production are thus controlled by the class on top of the social hierarchy so as to maintain the status quo and to reproduce the extant social relationship. Almost no heterodox economists would deny that the class structure is the defining feature of the capitalist economy. Then it is theoretically safe to start our argument with Marx and Veblen who set out a class analysis framework.

In the tradition of Marx and Veblen and in reference to Henry's interpretation of that tradition, we find three foundational principles. They are *the theory of monetary production*, *the social surplus approach*, and *the principle of* *effective demand*. These theoretical principles represent, if not entirely, Marx's and Veblen's (and Keynes's) revolutionary ideas and still bear on the understanding (and transforming) contemporary capitalism. Moreover, these principles have potential of being incorporated into an organic general theory of the "social provisioning process" (Gruchy 1987, 21; see also, Henry 1990, 2007, 2010), as opposed to the analysis of the natural, normal, and universal market exchanges that is nothing but the inquiry into the "human behavior as a relationship between ends and scarce means which have alternative uses" (Robbins 1932, 16).

Heterodox economics itself is a diverse paradigm. An attempt to integrate more than one strand within heterodoxy often faces resistance or cynical criticism. Our position is that pluralism is compatible with the development of a coherent economic theory, while some views get discarded. That is, not all heterodox theories are compatible with each other. Moreover, pluralism does not mean that all heterodox views are good (Henry and Lee 2009; Lee 2011b, 2013). Instead of entering into the "pluralism debate," we would rather propose that the social provisioning process approach as a general, pluralistic framework is a way (if not *the* way) to move heterodox economics forward.

The social provisioning process is a view of economy, which stresses the flow of goods, services, incomes, and both tangible and intangible resources taking place in historical and social context—cultural values, class/power relations, norms, ideologies, and ecological system. Economic activities under capitalism, such as production, consumption, employment, and exchange, are part of the provisioning process, which is controlled by the ruling capitalist class empowered by (and at the same time creating) a particular ideology, norm, cultural value, and class ethos. The vested interests of the ruling class are thus maintained and perpetuated by creating a set of institutions favorable to the ruling class. This is the nature of class society characterized by Marxian political economy as well as Veblenian-institutionalist economics (Jo 2011; Lee 2011a, 2012; Lee and Jo 2011; Todorova 2013a, 2013b). On this Henry also notes that

> Marx, Veblen, and Keynes are "embedded" theorists. They saw the economy integrated in a larger societal fabric within which the economy functioned. Unlike neoclassical theory that portrays the economy as a non-social set of relationships that is controlled by forces akin to natural law, all three argued that the economy itself was constituted by and through social relationships that dictated how and how well capitalism functioned. The economy was under human control and various institutional relationships and ideological structures were necessary to such an organization.
>
> (Henry 2011, 72–73)

Theory of monetary production

Then a relevant theoretical question concerns how the embedded capitalist economy is explained. Essentially, Marx explains that the capitalist mode of production controlled by the minority ruling class gives rise to social ills (alienation and exploitation), disorder (crisis), and irrationality (commodity-money fetishism). Veblen explains that underlying contradictory forces—for example, money-making business forces against output-making industrial forces—cause constant social evolution in favor of the ruling class. Common to both explanations is the essentiality of money in the process of production—that is, $M\text{–}C \ldots P \ldots C'\text{–}M'$. Capitalists engage in the production of commodities only if they expect positive surplus value or monetary gains—that is, the difference between M' and M (Marx 1990a, 293). Clearly, the aim of production is "the vendibility of output, its convertibility into money values, not its serviceability for the needs of mankind" (Veblen 1904, 50–51). In this circuit of money capital, capitalists spend money (M) on an array of the means of production (C), which includes natural inputs, labor power, and produced intermediate inputs that are jointly used to produce outputs through the technically specific production process. In no way is money neutral in the monetary production economy.[4]

The social surplus approach and the principle of effective demand

The theory of monetary production manifests that capitalist economy is a production-based, production-derived, money-centered, and money-making process of social provisioning. The exchange relationship is only secondary and incidental in the capitalist social provisioning process. This process can be separated, for an analytical purpose, into the schema of social production and the flows of incomes vis-à-vis the flows of goods and services. Following the theory of monetary production as well as the social provisioning perspective delineated above, it is reasonable to postulate that economic activities undertaken by going concerns (that is, the business enterprise, the household, the state, and other organizations) are interconnected through the technical and social relations over historical time. As such, physical production is seen through the circular circuit of production schema in which the produced means of production contribute to the production of the social surplus like other "original" inputs such as labor power and natural resources (Lee 2014). Then the monetary circuit can be rewritten like below:[5]

$$M \rightarrow \begin{bmatrix} L \\ G \\ K \end{bmatrix} \rightarrow \left[K : G \oplus L \right] \rightarrow \begin{bmatrix} Q_1 \\ Q_2 \end{bmatrix} \rightarrow M'$$

where, L is an array of labor power, G is an array of intermediate produced means of production that are used up in the production process, K is an array of fixed investment goods that are used (but not used up) in the production process, K: $G \oplus L$ represents the circular production schema, $\oplus$ means that employed inputs are used jointly in the production process, Q_1 is an array of intermediate capital goods, Q_2 is an array of surplus goods and services consumed by the households, the business enterprises, and the state. Thus, the total social product is $C' = Q_1 + Q_2$.

In this circular circuit of monetary production, capitalists' decision to employ labor power (L) given wage rates and production techniques (represented by labor input coefficients derived from the input-output matrix) generates the flow of wage income. Likewise, capitalists make a decision to purchase the produced means of production (G and K) given the prices of those inputs and production techniques (or material input coefficients). Capitalists' gross revenue, $M' = Q_1P_1 + Q_2P_2$, gets realized depending on actual demand for produced outputs and given the prices of products determined in the course of production of intermediate capital goods and surplus goods.[6] And M' is in turn divided into tax payments, dividends, debt payments, retained earnings, and other capitalist spendings. The division of gross revenue is determined by institutional arrangements—for example, corporate income tax rates, corporate governance, and market regulations.

This modified monetary circuit demonstrates that the provisioning process is managed and organized by the dominant agents or classes of the capitalist society. In particular, it is capitalists' and the state's decision to produce the social surplus (that is, effective demand) that drives the production of the total social product, since the production of surplus goods requires the production of intermediate capital goods. The effective demand for fixed investment goods then animates the flow of the production of intermediate capital goods, the flow of the production of fixed investment goods, and the flow of funds (or retained earnings) to finance the demand for fixed investment goods. Labor power inputs are also put into place following the effective demand for surplus goods. While the level and composition of the total social product is determined by the effective demand for surplus goods and services, product prices are determined and administered by business enterprises in each industry at the normal flow rate of output *before* actual market transactions take place. Thus product prices do not coordinate the supply of and demand for goods and services. Instead, price is set to gain access to the social provisioning process and to reproduce those price setters. Wages enable the working class households to gain access to the social provisioning process. But the working class has only limited access since wages (and, hence, the welfare of the working class) depend upon the decision made by the capitalist class and the state. In this context, the underlying population is controlled (in material terms) by the ruling class through the capitalist mode of production (Lee and Jo 2011; Jo 2015).[7]

In a nutshell, economic activities constituting the social provisioning process are coordinated by the effective demand for surplus goods and services, not by individuals' rational or optimizing production and consumption behaviors. In other words, the social surplus approach coupled to the principle of effective demand in the context of monetary production economy offers a theoretical alternative to the neoclassical supply–demand framework. Of course, our argument is not that this is the only way to incorporate diverse heterodox perspectives, but that it is a workable general framework in line with Marx's classical political economy, Veblen's institutional economics, and John Henry's organic general theory. This framework is in stark contrast to present mainstream economics which follows the tradition of "vulgar political economy" and "hedonistic economics" that Marx and Veblen would call the "illusions" in the nineteenth century (Marx 1990a, 174–175, fn.34; Veblen 1961, 183–184, 187; see also Martins 2013, 2015).

Mainstream economics in the twenty-first century still holds its nineteenth-century preconceptions. This should (and will) continue since the hypothetical world they created has to remain natural, normal, and universal, and since the same ruling class has been able to reproduce itself by controlling both the material and mental means of production. However, there arises a contradiction of applying the invariable theory to ever changing society. Not to mention, mainstream theories are internally incoherent (although internal coherence is the most important qualification from the mainstream perspective). These self-contradictions in mainstream economics should be either resolved or concealed, if mainstream economists wish to maintain their prestigious position in academia and in society. The recent developments within mainstream economics, such as new behavioral economics (e.g., behavioral finance), experimental economics, game theory, new institutional economics, and the like are part of their reproduction strategy. These mainstream "frontiers," be they critical of neoclassical economics or not, are intended to resolve those problems, but de facto conceal them. This is because they have not changed or abandoned the core elements and preconceptions in mainstream economics (Henry 2008b; Lavoie 2013; Lee 2013).

A final remark: how to move forward

We believe that "[s]tupidity, doubtless, will be always with us. But artificial stupidity need not" (Briffault 1936, 50). To eradicate artificial stupidity promoted by illusions or

> [t]o win the contest ... requires two interrelated developments. First, we must work to truly advance our theory (or theories as the case may be), and seek to develop an integrated whole, to the extent possible, that combines the work of the notables but also modifies this body of

> work through a thorough, well-articulated *general theory* that pushes us beyond our present state of knowledge. And this requires a more critical examination of our current work.
>
> (Henry 2007, 2, original emphasis)

The second requirement is a "fundamental change in the social relations" as happened in the 1930s in the United States. Such a change is not likely to happen again since "the fraud that is necessary to maintain existing society has become sufficiently developed and sufficiently pervasive to create a level of artificial stupidity that prevents the kind of questioning that we did see in the 1930s" (Henry 2007, 3). Then two choices are upon us: Be optimistic (and continue struggling) or give up (and pursue universal respectability). Henry's choice is "I prefer to remain optimistic" (3). What's your choice?

The outline of the book

This book is composed of three parts. Part I delves into the contemporary relevance of Marx's and Veblen's radical ideas. Geoffrey Harcourt, an eminent Post Keynesian economist, argues that the central organizing concepts of Marx and Veblen (in particular, the surplus, contradictions in the mode of production, class society, cumulative process) help understand how the capitalist system works and help construct realistic policies. John King applies Marx's and Veblen's ideas to the ongoing global financial crisis by focusing on their views on money and finance. Similarly and more generally, Phillip O'Hara continues examining the relevance of Marx's political economy by pointing out six principles—evolutionary system, holism, internal contradictions, the circuit of social capital, endogenous crises and cycles, and socialism and communism. O'Hara argues that there is a close connection between Marx and Veblen. The following three chapters in this part move focus onto Veblen.

Exploring the origins of the modern theory of exchange behavior—that is, classical political economy of Adam Smith and Karl Marx and institutional economics of Karl Polanyi and Thorstein Veblen, William Waller argues that Veblen's instinctual foundations to exchange behavior have potential to advance institutional-evolutionary economics beyond the limited view of exchange from the neoclassical perspective. Inspired by Veblen's (and Henry's) approaches, Zdravka Todorova expands on a monetary theory of production by incorporating non-commodities and their connection to broader social processes. Consequently, Todorova demonstrates that an integrative approach within heterodoxy offers a more comprehensive understanding of the complex, evolving capitalist social provisioning process. Both Waller's and Todorova's chapters exemplify Henry's thesis that a theory, be it heterodox or orthodox, should not be universalized. They rehabilitate (Waller) or expand (Todorova) Veblen's radical ideas to make them more relevant.

In their respective chapters, Andrew Trigg and Gary Mongiovi examine Veblen's theory and methodology in a critical (and sympathetic) manner. Trigg argues that while Veblen's theory of conspicuous consumption has its highest explanatory power in the account of lifestyles in a pre-capitalist epoch (for example, the King, Louis XVI, and the Queen, Marie Antoinette, before the 1789 French Revolution), it is not the best theory in the context of industrial capitalism as of the nineteenth century, which is driven by productive activities. What Trigg's argument implies is that instead of discarding Veblen's theory of conspicuous consumption, it needs to be modified by combining it with the *differentia specifica* of capitalism. Mongiovi's chapter is a Sraffian–Marxian critique of Veblen's critical account of neoclassical economics. Mongiovi argues that Veblen's wholesale rejection of the equilibrium (and mathematical) method places a limit on the development of Veblenian economics as an alternative to neoclassical economics. Like Trigg in the previous chapter, thus, Mongiovi implies that Veblen's theoretical framework needs to be amended by incorporating recent developments in heterodox theory and methods.

In sum Part I addresses the importance of the connections between Marx and Veblen (which is often overlooked by Marxists and institutionalists alike) to the advancement of heterodox economics. Moreover, we argue that the history of economic thought plays an integral role in developing an alternative critical theory to the status quo, rather than the former being a prelude to the latter.

Part II deals with theoretical and policy issues inspired by Marx, Veblen, and Henry. Robert McMaster advances Henry's argument pertaining to how to reform the teaching of economics in a pluralistic and ethical manner that would help liberate students and the underlying population from the inherent "paradigm blindness" or "illusion" of neoclassical economics. In the following chapter, Mario Seccareccia, being inspired by Henry's historical approach, examines the reciprocal relationship between theory and history as well as between theory and policy with reference to the crises of 1930s and 2000s. The current stage of capitalism (that is, neoliberal, financial, or corporate capitalism) has questioned the Marxian theory of the falling rate of profit as well as the meaning of capital. In defense of the Marxian theory, Wolfram Elsner observes that the recent financial crisis is the crisis of profitability and of over-accumulation. This argument is supported by the estimation of the corrected profit rate, which takes fictitious capital into account. Elsner also finds that the creation of unlimited fictitious capital would reinforce a redistribution of capital (from the working class to financial capitalists) and require a historically unusual profit rate that can only be achieved at the expense of wages, public budgets, public wealth, and environment. A similar conclusion is drawn by Marc-André Gagnon, but he takes a Veblenian approach to capital accumulation. According to Gagnon, Veblen had an articulate concept of capital, that is, the distinction between the earning capacity of businessman and the social productivity of the industry. Following Veblen's framework, Gagnon argues that in the age of corporate capitalism, it is the earning capacity to create and develop intangible assets (or "fictitious capital" as in Elsner's chapter) that drives the capital accumulation of corporations, while the social productivity of the industry as a basis of social welfare is lowered. In the last chapter Alla Semenova and L. Randall Wray examine the rise of money and its relation to the emergence of class society from the Chartalist-Modern Money Theory perspective. Certainly, the reciprocal relationship between money and class society (which is one of John Henry's contributions to heterodox theory) is critical to the understanding of money in the capitalist society. Semenova and Wray also find theoretical and policy implications for the current capitalist system.

Part III is devoted to John F. Henry's heterodox economics. A leading chapter in this part is Henry's farewell lecture delivered at the University of Missouri-Kansas City on April 25, 2014. This chapter epitomizes Henry's approach to economics—that is, a historical inquiry into the relationship between democracy and property relations on which the capitalist system is founded. Henry begins the chapter with a slave system in the American colonies and moves onto capitalist property relations from the nineteenth century to the current era. His inquiry questions the foundations of capitalism and the concept of democracy therein from the viewpoint of the "useful members of the society"—that is, the working class. Henry concludes that the struggle for justice, and the struggle against inequality, exploitation, and tyranny are necessary to make the capitalist system viable for the useful members of the society.

In addition to Henry's lecture, the editors of this book interviewed John Henry on April 24, 2014. In this interview readers will learn how one became a heterodox economist, the importance of social networks, relationships, and engagements in doing heterodox economics, and other untold stories that are relevant to the theme of this book. The book is concluded by the bibliography of Henry's writings from 1975 to 2015.

Notes

1 Hyman Minsky also figures prominently in Henry's recent works, such as Henry (2010, 2012) and Jo and Henry (2015).

2 A caveat regarding Keynes is in order. Our discussion does not extend to Keynes in the chapter. This is not because Keynes is less important than Marx and Veblen, but because we want to remain focused on Marx's and Veblen's radical perspectives on economy and economics. Perhaps at least another book is required to deal with such an important link between the members of Henry's triad.

3 It is not to be inferred here that mathematics itself is of no use in doing economics. As many heterodox economists have already pointed out the problem is the way mathematics is used by neoclassical economists. See, for example, Dow (1985, 12).

4 What we call "money" here is not a thing that emerges naturally in the course of voluntary market exchanges, but a social institution representing credit-debt. Historically, money exists in most class societies regardless of the existence of

market exchanges (Henry 2004; see also Chapter 12 of this volume). Also note that it's hard not to discuss Keynes's contribution to the theory of monetary production. Keynes's contribution lies in the realization of profit—the last stage in the circuit of money, $C'-M'$. This realization problem is directly connected to his principle of effective demand contained in *The General Theory* (1936). For this issue see below and Dillard (1980).

5 For the sake of brevity (although it is not always desirable), we are only considering the produced means of production (intermediate inputs and fixed investment goods) and labor power. The circuit can be converted into a matrix form as in Lee (2012, 2014).

6 P_1 and P_2 are prices of intermediate capital goods and surplus goods, respectively. P_2 can be separated into P_{2C}, P_{2I}, and P_{2G}, the price of consumption goods, of fixed investment goods, and of government services, respectively. "Given" prices do not mean that prices are determined in the market. See below for further discussion on price.

7 In the tradition of Marx and Veblen, the capitalist and the state along with other elite classes constitute the ruling class. It follows that when it comes to the welfare of the underlying population, the welfare state is not designed to protect people from self-destructing markets (and unstable income flows and insecure jobs thereat), but rather to prevent the very same markets from collapsing and, ultimately, to protect the "interests of large property holders against the population" (Henry 2009c, 2). We'd refer readers to Henry (2008a) for the discussion of Marx's and Engel's (rather than Marxists') view of the state, which underlies Henry's position on welfare.

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Part I

Radical ideas of Karl Marx and Thorstein Veblen

1 The Marxian and Veblenesque elements in how I do economics

G. C. Harcourt

I

I count it a great privilege to contribute a chapter to the volume for John Henry. I have known him since he was a doctoral student at McGill in the 1970s. John was supervised by my old and dear friend, the late Athanasios (Tom) Asimakopulos. (Tom and I were PhD students at King's, Cambridge in the 1950s.) I read John's dissertation on J. B. Clark and the origins of neoclassical economics and was bowled over by his scholarship, critical ability, analytical strength, enthusiasm, and radical humanity.

By the time John was awarded his PhD, to be a true radical was starting to become a liability as far as getting a permanent academic post was concerned. Thank goodness, John found a niche at the California State University at Sacramento and then at the University of Missouri at Kansas City. He became a much admired teacher and colleague as well as an outstanding scholar. Reading his CV, in which is set out his remarkable contributions, takes one's breath away. He surely must be one of the greatest all-round scholars in modern economics, with important things to say on so many crucial issues within boundaries so generously drawn by our classical pioneers (my favorite saying of Maurice Dobb, see Dobb 1973, 261).

John knows far more about Karl Marx, Thorstein Veblen, and religious and theological matters than I ever will[1] and I have greatly benefitted from drawing on his wise knowledge. In this chapter I document the impact of the contributions of Marx and Veblen, two of John's and my favorite economists, on how I have done economics over my lifetime as an academic economist, teaching principally at Adelaide and Cambridge.

II

I start with a confession. My absorption and understanding of Marx and Veblen are mostly the outcomes of the process of osmosis. When I was an undergraduate at Melbourne University, in 1952, my third year, I took History of Economic Thought as one of my two Honors options (the other was Mathematical Economics). The lecturer (who shall remain nameless) was one of Joseph Schumpeter's last graduate students at Harvard. He was a lazy sod who never prepared for lectures/classes. Instead, he outsourced (as we say now) each of the greats of our trade to members of the class to prepare and then give the background lectures on them.[2]

As well as preparing our allocated lectures, we had to read all the greats in the original texts, an excellent, indeed, essential requirement, of course. John McCarty, alas now dead, introduced us to Marx and did an excellent job. I must confess, though, that Marx's *Capital* was the only one of the great books, those by Smith, Ricardo, Malthus, Marshall, Keynes, that completely defeated me.[3] In desperation, when preparing for the final exam, I read Paul Sweezy's *The Theory of Capitalist Development* ([1942] 1969), still an excellent introduction to the great man's ideas. But it was not until I supervised three wonderful PhD students who were scholars of Marx—Prue Kerr, Allen Oakley, and Claudio Sardoni—that I started to grasp what Marx was on about.[4]

I doubt if I read much of Veblen as an undergraduate, though living in Melbourne from the 1930s to the 1950s certainly imprinted on me the vulgarity of conspicuous consumption and the hostilities between well-demarcated classes in what was then a snobby, stuffy, sectarian environment. I came to his ideas tangentially, first, through the writings of John Kenneth Galbraith, especially *American Capitalism: The Concept of Countervailing Power* (1952), *The Affluent Society* (1958) and *The New Industrial State* (1967); and, second, through Nicky Kaldor's development of the concept of cumulative causation. Kaldor initially obtained his understanding of the concept from Allyn Young, his teacher and mentor at the London School of Economics in the 1920s. The concept had been thoroughly developed by Veblen, independently, by Gunnar Myrdal, and, of course, by Adam Smith, on whom Young drew, albeit he presented his arguments in terms of Marshallian concepts and analysis (see Young 1928). As I discuss below, it was to become an integral part of my teaching and research.

III

I start with Marx. From early on I think I realized, but only vaguely, that Marx classified the march of history by the ways in which the surplus was created, extracted, distributed and used in the specific mode of production that dominated each historical period. Such a view implied that each mode carried within it, its own unique source of contradiction so that one mode would inevitably be succeeded by another, and that, at any moment of time, there would be fossils left over from preceding modes and the beginnings of the embryo of the mode that was to follow.[5]

Such a viewpoint further implies that one task of a theorist was to abstract dominant relationships from actual surface historical observations in order to construct ideal abstract models of dominant modes of production.

Such models would produce inferences that could be observed in the hurly-burly of the actual historical happenings just because they were, in their pure form, the dominant processes at work.[6] Allied with this vision was the proposition that all modes contain within them different classes characterized by the nature of the dominance of one class over another. This gave rise to different forms of the exploitation of one class by another. This process was obvious in Feudalism where history and institutions combined to allow the Lords of the Manor to make the serfs not only produce a surplus on the Lords' lands but also to pass much of it to the Lords for their use.

In the pure competitive capitalist mode of production, such exploitation was neither obvious nor indeed even present in the surface phenomena of its sphere of distribution and exchange. In the competitive mode, all members of the class of property-less wage-earners would nevertheless be paid the same wage for every hour that they worked. (For simplicity we assume homogenous labor.) Any capitalist who organized production and accumulation and who tried not to do this would find that wage-earners could and would be able to move to others who did. How then could there be exploitation and how was a surplus created?

The answer is the essence of the labor theory of value. Because the capitalists *as a class* had a monopoly of the means of production, as a class they could make wage-earners *as a class* work longer in the sphere of production than was needed with existing techniques and capital stocks to produce the wage goods the wage-earners received (and earned). The extra hours worked was surplus labor, the source of surplus value and the surplus commodities emanating in the sphere of production, and the source of profits observed in the sphere of distribution and exchange. Their size so created was reflected in the uniform rate of profits and in the profit component of the prices of production which, it was argued, underlay observed market prices. One-to-one correspondence of direct and indirect labor embodiment in each commodity was not implied, only that deviations of prices of production from underlying labor values could be predicted—the (in)famous transformation problem.

This basic vision still illuminates our understanding of the capitalist world today. To it we must add the realization problem, sensed by Marx and his despised predecessor, Thomas Robert Malthus, and independently solved in the modern age by Maynard Keynes (but in an inappropriate Marshallian setting) and Michal Kalecki within an appropriate Marxian structure. This requires a distinction between the *potential* surplus created in the sphere of production by the current state of the class war and the inherited technical structure created by past accumulation, on the one hand, and the *actual* surplus realized as an outcome of establishing the point of effective demand combined with the distribution of the product between profits and wages in the sphere of distribution and exchange, on the other. The clearest exposition of these interrelated processes is in the writings of Donald Harris (1975, 1978). Harris drew on Marx, Kalecki, Keynes, and Joan Robinson in arriving at his synthesis, to which he added his own original take on the processes involved.

The other major extensions are, first, to include the role of the multinational oligopolies that have come to dominate production, trade, accumulation and government policy in our modern world (here Galbraith through Veblen joins Marx[7]); second, the rise to dominance of national and international finance capital over industrial and commercial capital, both in activity and in influencing government policy, nationally and internationally. Marx had warned us long ago that such events could lead to instability and often to crises.

There, as well as on Marx and these other influences, I draw on Kurt Rothschild's 1947 classic, "Price Theory and Oligopoly." It was the single most influential article I read as an undergraduate and it has been integrated into the structure of my thought ever since.

Indeed, my first ever major research project resulted from the requirement that in our fourth undergraduate year as Honors students at Melbourne, we write a 30,000 word honors thesis. Mine was on the implications of having Rothschild's oligopolists, who were as interested in receiving secure as in receiving maximum profits, as the dominant market structure, for systemic behavior within the framework of Keynes's *General Theory*. In particular, I analyzed the effects of "financial prudence"—writing off through depreciation allowances the book values of fixed assets long before the need to spend on their replacement occurred (see Keynes [1936] 1973, 98–106)—as evidenced in the reserve policies of a sample of Australian public companies over the years of the Great Depression.

My immediate examiners were not that impressed by my efforts but Ronald Henderson, my PhD supervisor at Cambridge, and John Hatch and Ray Petridis in Volume I of the volumes in my honor edited by Philip Arestis, Gabriel Palma, and Malcolm Sawyer (1997) were more positive. Hatch and Petridis wrote that the thesis

> is of interest for its own sake but also because it contains themes which are echoed in much of his later writing.... The conclusions to the thesis were both modest and agnostic in contrast ... to the exuberant, assertive, almost brash style of earlier parts ... but he established a pattern of seeking practical policy implications for much of his subsequent work.
>
> (1997, 3)

We know that Kalecki and Keynes independently discovered the principal propositions of *The General Theory* and that Kalecki's are set within the more appropriate structure of Marx rather than Marshall as Keynes's are. While Kalecki concentrated mostly on aggregate analysis in the sphere of distribution and exchange, he took as a necessary given, happenings in the sphere of production in which the class war rages and the surplus is created. This understanding underlies his classic 1943 paper "Political Aspects of Full Employment," the analysis and findings of which are as relevant to the happenings of the modern world as they were for the 1930s and 1940s.

Just as Marx and Marxists helped form Kalecki's original structure, so too did Marx and Kalecki help transform Joan Robinson's from her Marshallian and Keynesian beginnings to her mature understanding of the processes of distribution, accumulation and growth in capitalism as set out in *The Accumulation of Capital* (1956), *Essays in the Theory of Economic Growth* (1962), *Economic Heresies* (1971) and many articles from the 1950s to the early 1980s. Increasingly I also absorbed these influences in my own work through Joan's writings, in which *The Accumulation of Capital* held pride of place.[8] As I mentioned above, in recent years I have written papers on what would Marx and Keynes (and Kalecki) have made of the last 30 years and more, papers which both criticize mainstream analysis and set out alternative interpretations based on the above Trinity's insights and contributions.

IV

Turning now to Veblen: there are at least two major influences: the concept of cumulative causation (combined with the view that economics is or should be an evolutionary science) and his role in the Cambridge–Cambridge controversies in capital theory, most recently brought to light by Joan Robinson when she read or reread his critique of J. B. Clark's version of marginal productivity theory.[9] She pointed out that had people remembered his devastating review article (Veblen 1908; Kerr with Harcourt 2002), there would have been no need to have the controversies in the first place.

> Much is made of the doctrine that the two facts of "capital" and "capital goods" are conceptually distinct, though substantially identical.... "Capital is the permanent fund of productive goods, the identity of whose component elements is forever changing. Capital goods are the shifting component parts of this permanent aggregate" (p. 29). Mr Clark admits that capital is colloquially spoken and thought of in terms of value, but he insists that ... the working concept of capital is ... that of "a fund of productive goods" considered as an "abiding entity." ... This conception of capital ... breaks down in Mr Clark's own use of it when he comes ... to speak of the mobility of capital, that is to say, so soon as he makes use of it.... The continuum in which the "abiding entity" of capital resides is a continuity of ownership, not a physical fact.
>
> (Veblen 1908, 162–163; Kerr with Harcourt 2002, 287–288)

As in Marshall so it was all in Veblen.

I have Joan Robinson's copy of her textbook with John Eatwell (1973). In it, she annotated this passage as follows: "In modern times they [mainstream economists] have resorted to be desperate expedient of assuming machines are 'malleable'" (46). With her usual deep perception she has in one sentence highlighted the central thrust of the critique, that what is at stake is so much more the *meaning* as opposed to its corollary, the *measurement* of capital. This leads to concentration on alternative takes (within the mainstream and its critics) on the characteristics of the economic society being analyzed—its "rules of the game," institutions and, most importantly, the sources and strength of power at work in the society.

As to cumulative causation it is here that osmosis from Veblen is much to the front. The particular form it took in my thinking owes most to Kaldor's version but also to Joan Robinson's and, indirectly, to Dick Goodwin's and (late) Kalecki's theories of cyclical growth (see Goodwin 1967; Goodwin and Punzo 1987; Kalecki 1968; Harcourt 2006b). I also mentioned above Marx's insight concerning the consequences of the dominance of finance capital over the other two forms, especially in the modern world. This may be allied with what the profession takes to be Kaldor's most important theoretical paper, "Speculation and Economic Stability" (1939). In it he analyses price formation and activity in markets in which stocks dominate flows and expectations, often speculative, dominate the usual fundamentals (of neoclassical theory) in the determination of prices.

In my teaching in the 1980s I began to illustrate, by means of a wolf pack analogy, the essential difference between cumulative causation processes, on the one hand, and mainstream equilibrium analysis with its sharp distinction between existence and stability, on the other. I stressed the claim by the mainstream that the factors responsible for existence (whether unique or multiple) were independent of those responsible for stability (local or global). I illustrated this by a wolf pack running along. If one or more wolves surged ahead or fell behind the main pack, strong forces would immediately come into play to return them to it. With cumulative causation, though, the errant wolves would either get further and further ahead or fall further and further behind, at least for long periods of time. I asked what would we observe in actual markets or even whole systems, according to which of the processes underlay their workings, and what would be the policy implications of our findings? This led to me proposing package deals of policies based on the underlying theoretical analysis (see Harcourt 2006b, Ch. 8; 2010; 2012b, Ch. 14).

V

I close with a discussion of a fascinating (and, to me, startling) conjecture of the late Hirofumi Uzawa that Veblen's *The Theory of Business Enterprise* (1904) contains the essence of Keynes's *General Theory*, only better. In an interview that Hiro gave to Masahiro Okuno-Fujiwara and Karl Shell (2009), he discussed his admiration of Veblen, his struggles as a penetrating, clear-minded mathematician to come to terms with what Veblen's admirable and sometimes sophisticated, even dense (in the sense of subtle but complicated) prose and arguments were about. Uzawa, who also had problems with Keynes's writings, advanced the judgement that Veblen's ("almost a classic") volume not only anticipated the core of Keynes's classic—"I was shocked to find out that the book contained the essence of Keynes's *General Theory*" (Okuno-Fujiwara and Shell 2009, 399)—but also set it out more fundamentally and in a more appropriate setting than did Keynes. I read Veblen's book to see why Uzawa came to this conclusion. I also read the scholarly introductions by Charles Camic and Geoff Hodgson to their comprehensive edition of the essential writings of Veblen (2011).[10]

That Veblen's book has the business enterprise as its principal character is, I think, the clue to why these claims are made. Lorie Tarshis, who went to Keynes's lectures in the 1930s while *The General Theory* was being written, chose as a result to make the firm the principal unit of analysis in his innovative 1947 textbook on price theory and employment. This reflects the fact that in Keynes, as in Marx, it is the swash-buckling and ruthless capitalists rather than the consumer queens that drive capitalism along, with all other entities dancing to their tune. To this considerable extent, Keynes escaped from the hold that Marshall had on him, though, to be fair, Marshall had a deep understanding of the behavior of firms and industries and their role in the evolving system he was analyzing but with his inappropriate static supply and demand functions.

So there is little doubt that Veblen and Keynes were on the same wavelength. Such a view is reinforced by Veblen listing in his characteristics of capitalism the crucial role of what Keynes after the publication of *The General Theory* (Keynes 1937a, 1937b), was to call the finance motive—the absolutely essential prior role of availability of finance in order to put into effect investment plans. Veblen made this explicit in his discussion of the transition from the money economy which existed in the early stage of capitalism, the period of history on which Smith drew for his system building, to the credit economy of Veblen's time (Camic and Hodgson 2011, 342–343). It is possible therefore to extract from the detailed arguments of Veblen's book two central propositions of Keynes: Finance → Investment → Saving, and that investment is the creator of saving, the dog that wags the saving tail, as James Meade (1975) vividly put it.

Veblen also examined in great detail the nature and role of speculation in the stock market, the foreign exchange market and the futures markets for commodities. He documented, as Keynes was to do, the last's destabilizing effects in certain periods and identified its systemically harmful effects, as opposed to the conventional wisdom, with which both Marshall and Keynes originally agreed, and Milton Friedman still did, of the systemically beneficial effects of speculation.

Veblen also emphasized, as Keynes was to do, that the ultimate objective of business people is to maximize monetary amounts in a circuit akin to Marx's circuit of capital, and that the production, accumulation, and employment associated with attempting to achieve this aim may not necessarily be socially optimum as is implied in a surface reading of Smith's analysis. Moreover, many of the processes that Keynes identified in, for example, his analysis of the trade cycle in the light of his new theory, Veblen had already documented in great detail and to more powerful effect because of his understanding of the evolutionary nature of capitalism and the dominance of cumulative causation processes in actual happenings. Keynes was more restrained and restricted because of the hold which Marshall's equilibrating method still had on him.

The editors have pointed out to me that John (see, for example, Henry 2010, 2011)

> has made a similar argument that Marx, Veblen and Keynes are very similar in their analytical framework. In particular, [John] notes that 1. They are embedded theorists in that social relationships dictate capitalism. 2. All three have a class framework. 3. Their analysis [is of a] monetary production economy as opposed to [a] real exchange economy. 4. They deal with [the] oligopolistic phase of capitalism.[11] 5. They are against the (marginal) productivity theory of distribution.[12] 6. Historical time is a fact in their analysis.[13] 7. Hence fundamental uncertainty is essential and … it is incompatible with the concept of equilibrium.[14] 8. Capitalism is neither universal nor natural—it has a beginning and an end, [it] changes [and] might transform itself into another system.

VI

I hope these reminiscences will be of interest and acceptable to John. I hope also that he will discern in them absorption of his approach to political economy and to the history of our subject.

The editors also asked me to reflect, first, on how John's absorption into his own thought and structure, the approaches of Marx, Veblen, and Keynes, has contributed to heterodox thinking. I would argue that he has provided us with a much more rich and relevant approach for analyzing modern capitalism, its malfunctions, contradictions, and sources of change than has the dominant mainstream model that is principally derived from Walrasian theory in its modern Fisherian and Arrow-Debreu form. In doing so he has followed his mentor Tom Asimakopulos's insistence that the characteristics of the nature of the society being analyzed—its "rules of the game," class structures, sources of harmony and disharmony—must always be made explicit before any analysis and/or modeling begins.

Second, how great are the overlaps between John's values and approach to theory and policy and mine? Though, as I noted, John is way ahead of me in the richness, depth, and spread of his scholarship, I think we are in agreement on how modern economies work and on the humanitarian values that lie behind our policy proposals. Mine are derived from democratic Christian Socialist principles, always presented within what may be politically possible in fact (see, for example, Harcourt 1998, 2012a). John's are derived from his humanist, agnostic values that nevertheless lead to similar policy recommendations.

Third, they asked me what I thought Tom Asimakopulos, if he were still alive, would say now to John, remembering that Tom was my close friend and John's mentor and friend. Of the three of us, Tom was the most formal and least laid-back, especially when relating to his students, who, while devoted to him, respected his personal reserve and were sometimes in awe of him. Tom could be rigid on matters of principle and this sometimes lead to serious, even permanent, rifts with colleagues. While John is a strong principled character, his easy, amiable nature would not give rise as much to unbridgeable personal clashes.

All three of us made/make teaching our top priority while recognizing that teaching and research are indissolubly mixed. Tom had a more formal approach to the integration of, for example, Marx's concepts into his own analysis than do John and I, with the result that Tom and Piero Sraffa never completely met on the same page, especially when discussing how demand factors affect price formation (see Asimakopulos 1988, n.3, 142; Harcourt 2008; 2012a, 284–286). Nevertheless, like I do, I believe Tom would have approved of John's extraordinarily wide and deep knowledge of so many disciplines and of their bearing on economic analysis and policy.

Acknowledgments

I am much indebted to (but in no way implicate) the editors, Tae-Hee Jo and the late Fred Lee, for their comments on a draft of this chapter.

Notes

1 I recently reread John Henry's superb biography of John Bates Clark (Henry 1995). The deep knowledge exhibited there of economists and economic theory and of the religious, historical, and political issues that were concurrent with Clark's life bear witness to the statements in the text.

2 I was allocated John Stuart Mill which I never regretted—Mill was a wonderful human being whose *Principles of Political Economy* (1848) cried out to be presented in terms of supply and demand diagrams. Perhaps Alfred Marshall's reading of him helped Marshall to emasculate classical political economy while claiming to be evolving its basic concepts, ideas and approach (see Bharadwaj 1989, Ch. 6).

3 I subsequently sympathized with the radical students in a BBC sketch who made up a reading group on Volume I. After struggling through an incomprehensible paragraph, I think it was Mel Smith who said: "Oh bugger this, let's go out and blow up a factory."

4 An essay of which I am most proud is Prue's and my essay on Marx for Malcolm Warner's *International Encyclopedia of Business and Management* (1996), reprinted in Harcourt (2001a) and drawn on for an essay, "Paul Samuelson and Karl Marx: Were the Sacrificed Games of Tennis Worth it?" (Harcourt 2006a), in the volume in honor of Paul Samuelson's ninetieth birthday, edited by Michael Szenberg, Lall Ramratten, and Aron A. Gottesman (2006).

5 Spending so much of my working life in Cambridge served to acquaint me first hand with the remnants of Feudalism that had survived there.

6 Realizing this has underlaid various papers I have written in recent years on what would Marx, Keynes (and Kalecki) have made of the happenings of the last 30 years and more (see, e.g., Harcourt 2001a, 2001b, 2012a, Essay 6). These papers led in good Marxian fashion (but the other way around) to my latest critique of mainstream economics (see Harcourt 2010).

7 I was fascinated by John's account of Clark's recognition of the rise of oligopoly to be the dominant market structure in the United States at the turn of the last century and by its impact on his marginal productivity theory of distribution.

8 Prue Kerr and I have recently written the Introduction to the reissue of *The Accumulation of Capital* as a classic (Harcourt and Kerr 2013). In 1956 when her "big book" was first published, as a research student at Cambridge, I locked myself up for a term to try to absorb its contents. (I had been to her lectures on it the year before but had been thoroughly puzzled by much of her arguments, not least because she tended to drop her voice just when she came to a crucial step in them.) I wrote a long paper on what I took to be the book's essence and presented it over successive weeks to the weekly research students' seminar run by Piero Sraffa and Robin Marris. Joan fronted up to answer questions at a third session. She evidently approved of my interpretation, for our friendship dates from then. Alas, sometime during my many moves since then I lost my only copy of the paper. I would dearly loved to have compared its contents with those of Prue's and my Introduction of well over 50 years later.

9 John tells us in the Preface to his book on Clark that his "interest in the work of John Bates Clark and his place within the economics profession began in the early 1970s [and that] [t]hat work was stimulated, not by Clark directly, but by the 'Cambridge Controversy' and [his] introduction to a critical view of neoclassicism under the tutelage of Tom Asimakopulos" (Henry 1995, ix). Those exciting but disturbing times—the anti-Vietnam war protests, the Civil Rights Movement, the students revolt—together with studying "a significant debate in fundamental economic theory … [g]radually and somewhat painfully [withered his] faith in neoclassical theory, in propertied democracy, in the sanctity of established institutions" (ix).

10 There, I found out that other writers have made claims similar to Uzawa's (see Vining 1939; Raines and Leathers 1996).

11 Keynes, though, for tactical reasons, in trying to persuade the orthodox of the rightness of his new views, mostly has Marshallian freely competitive market structures in *The General Theory*. He did not think that market structures qualitatively affected his new key theoretical propositions.

12 Keynes, though, still remained a Marshallian on distribution issues so that it was Kaldor (1955–56) who perceived that in *A Treatise on Money*, Keynes had created an alternative "Keynesian" macroeconomic theory of distribution.

13 Nevertheless, Joan Robinson (1956, 1962) and Kahn (1959) stressed that logical time, even Golden Age, analysis was a necessary precursor to historical time analysis.

14 But see Harcourt (1981, 1982) for a discussion of the role of the concept of centers of gravitation in the works of Marshall, Sraffa, and Keynes.

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2 Marx, Veblen, and the global financial crisis

J. E. King

Introduction

In this chapter I consider the possible reactions of Karl Marx and Thorstein Veblen to the global financial crisis of 2007–2008. I begin by outlining John Henry's attitude to the two thinkers in his *The Making of Neoclassical Economics* (1990), in his *John Bates Clark* (1995) and in his more recent work. Subsequent sections speculate on how first Marx and then Veblen might have responded to the global financial crisis, including brief discussions of their views on the role of money and finance in capitalist economies and their respective models of economic crisis. I then consider Veblen's verdict on Marxian economics and the critical reactions of some later Marxists to Veblen. I conclude by reflecting on what the attitudes of the two men might have been to the prospect of reforming capitalism to reduce the frequency and severity of crises.

Henry on Marx and Veblen

As the title of this volume suggests, John Henry has always taken a strong interest in the work of Karl Marx and Thorstein Veblen. His first book, *The Making of Neoclassical Economics*, was permeated by Marx's approach to the history of economic thought in general and by his analysis and condemnation of "vulgar political economy" in particular. Henry quotes at some length from volume II of *Theories of Surplus Value*, including the well-known passages where Marx praises Ricardo for his scientific honesty, attacks the "base" Malthus for serving as an apologist for the parasitical landed aristocracy and describes John Stuart Mill as ushering in the disintegration of the Ricardian school of political economy (Henry 1990, 130–131, 95–96, 162–163, citing Marx [1861–1862] 1971, 118–119, 119, 84–85). From the same source Henry also cites Marx's critique of the "trinity theory" of distribution, in which he anticipates the equally fetishistic post-1870 marginal productivity approach to the explanation of class shares, and endorses Marx's attack on its apologetic character (124, 158–159, citing Marx [1861–2] 1971, 453, 501). Henry also suggests that Adam Smith's view of the state as the defender of private property was "not far different from that developed later and more thoroughly by Marx" (76). Henry's own position may be inferred from his uncritical quotation of the long passage from the introduction to *A Contribution to the Critique of Political Economy* in which Marx summarizes the basic principles of historical materialism (179–80, citing Marx [1859] 1970, 21).

Five years later, in *John Bates Clark*, Henry notes that the great American neoclassical economist was, in his maturity, an explicit and vociferous critic of Marxism (Henry 1995, 153, n.12). He identifies Clark as a leading exponent of what Marx and Engels had described as "the illusion of the epoch": the mistaken belief that capitalism was natural, timeless and eternal (144), and extends this argument to neoclassical economics in general (see Henry 2009). He observes, too, that Clark's early socialist views had been strikingly similar to the ideas of the so-called "true socialists," whom Marx and Engels had denounced in *The Holy Family* and *The German Ideology* (Henry 1995, 153, n.11).

Henry also has something to say about Veblen. "To a large extent," he writes in the Preface to the earlier book, "I have followed the path already laid by critics such as Marx, Veblen and Dobb" (Henry 1990, xviii); the allusion is to the great Cambridge Marxist, Maurice Dobb ([1946] 1963, 1973). Henry endorses the "felicitous phrase" of "industrial sabotage" that Veblen used to describe the behavior of oligopolists, who invariably restricted output in order to raise prices and increase profits, and alludes to Veblen's own critique of Clark and his neoclassical approach to economics (Henry 1990, 178, 229–230, the latter citing Veblen [1908] 1961, 192–193). The citation is repeated, in a slightly different form, in Henry's later book (Henry 1995, 55–6), where he also notes the parallels between Clark's essentially Smithian theory of the state and that of the Marxists—"though Veblen can be cited as a non-Marxist who treated the state in approximately the same fashion" (40). As we shall see, this is a controversial claim. Henry continues by describing Veblen as "Clark's most famous student," who took the latter's analysis of oligopoly very much further, seeing it as "a new and *different* stage of capitalist development" that "produces its own and different effects" (123). Here Henry shows considerable sympathy for the evolutionary nature of Veblen's analysis.

In subsequent work Henry has returned to these questions. In a paper with Stephanie Bell-Kelton he notes that for Veblen capitalism is the first pecuniary form of predation in history, and that the capitalist state is the representative and defender of "absentee ownership." It promotes nationalism and patriotism, which are seen (like sportsmanship) as a form of ferocious emulation, together with other dimensions of "invidious distinction," by rank, income, gender, nationality and race. For Veblen war is the normal state of affairs, and the production of armaments benefits capital by providing "a highly desirable wasteful outlet for surplus," thereby securing profits (Henry and Bell-Kelton 2007, 604). Thus Veblen, like Marx, was a surplus theorist (see also Martins 2013, ch. 8). And he believed that there were narrow limits to the reform of the system, since nothing could be done that would challenge existing property rights.

Most recently, Henry has proposed updating Veblen by introducing elements of the work of the Post Keynesian financial theorist Hyman Minsky, noting that already in 1904 Veblen was writing about a 'credit economy' (Jo and Henry 2015). Henry suggests that fraud is the most prevalent form that predation takes in economies dominated by finance. For Veblen, "in the modern period, fraud of one sort or another becomes a normal operating procedure in attempting to increase profit" (Henry 2012, 998; see also Henry 2011; Jo and Henry 2015; Jo and Lee in this book). Economists as diverse as Adam Smith, John Stuart Mill and Alfred Marshall had concerned themselves with the connection between finance and fraud. But there are closer parallels between Veblen and Marx and Keynes, whose "theoretical world" is one "in which capitalism is seen as a monetary production economy" (Henry 2012, 991), in which class relations are fundamental and the ahistorical equilibrium models of the neoclassical economists are dismissed as irrelevant to the oligopolistic phase of capitalism.

Once again, for Veblen the power of finance is great enough to make any meaningful reform unlikely, since "[r]epresentative government means, chiefly, representation of business interests. The government commonly works in the interests of the business men with a fairly consistent singleness of purpose" (Veblen 1904, 286, cited by Henry 2012, 1003). There is, of course, a problem lurking here, since it is precisely in the case of fraud that "the interests of the business men" diverge sharply, in what is inevitably "a zero-sum game" between swindler and victim (Henry 2012, 1005). Arguably neither Veblen nor Henry take this problem seriously enough.

In view of John Henry's deep sympathy for Marxian political economy and his considerable regard for Veblen's ideas, however, there does seem to be some merit, in a volume honoring Henry, in exploring the ways in which these two great thinkers might have reacted to the global financial crisis of 2007–2008 and attempting to uncover the strengths and weaknesses of the interpretations of the crisis that they might have provided.

Marx and the global financial crisis

John Henry is quite right to include Marx in his short list of political economists who deal explicitly with a "monetary production economy." For Marx, capitalism is driven by profit, which is the difference between revenue and cost: two sums of money. This rather obvious statement has important consequences, since it means that he was never tempted (like so many neoclassical economists) to analyze capitalism in terms of a barter economy, even as a first approximation. As Henry notes, Marx's summary of the production and 'realization' of surplus value takes the form $M–C–\ldots P\ldots–C'–M'$. The capitalist starts with a sum of money (M); uses it to purchase commodities—means of production and labor power—of equal value (C); uses them to produce commodities of greater value ($C'>C$); and, all being well, sells these commodities for a sum of money equal to their value ($M'>M$). His profit ($M'–M=C'–C$) originates in the production process, but it is 'realized' in their sale, that is to say, in their exchange for money. In an early draft of the *General Theory*, Keynes had made explicit reference to Marx's algebra, probably influenced by his friend and colleague Dennis Robertson (Rotheim 1981), and he would have been well-advised to persist with it in the final version of his great book.

There is, though, a deep problem with Marx's treatment of money and finance. On the one hand he insists that relations of production are fundamental and relations of exchange are relatively superficial (in its literal meaning of "close to the surface") and therefore often misleading. As Dobb notes in the opening chapter of his *Studies in the Development of Capitalism*, the "emphasis of our approach to the interpretation of Capitalism is that changes in the character of production, and in the social relations that hinge upon it, have generally exerted a more profound and potent influence upon society than have changes in trade relations per se" (Dobb [1946] 1963, 26).

The logical and causal priority that is attributed to the relations of production applies *a fortiori* to what Marx terms "money-dealing." "The relations of capital," Marx wrote in volume III of *Capital*, "assume their most externalized and most fetish-like form in interest-bearing capital," in which "[it] becomes a property of money to generate value and yield interest, much as it is an attribute of pear-trees to bear pears.... This is a mystification of capital in its most flagrant form" (Marx [1894] 1962, 383, 384). In fact, as we have seen, for Marx surplus value is created by the performance of surplus labor in production, and "the money-dealers' profit is nothing but a deduction from the surplus-value" (317).

On the other hand, Marx acknowledges that "money-dealing capital" benefits productive capital in two ways. First, it reduces the amount of unproductive labor that is required in the circulation process. "This labour is a cost of circulation, i.e., not labour creating value. It is shortened in being carried out by a special section of agents, or capitalists, for the rest of the capitalist class" (Marx [1894] 1962, 311). Second, it "promotes ... the technical operations of money circulation which it concentrates, shortens, and simplifies," allowing the quantity of idle money capital held by productive capitalists (their "hoard") to

> be reduced to its economic minimum because, if managed for the capitalist class as a whole, the reserve fund of means of purchase and payment need not be as large as they would have to be if each capitalist were to manage his own.
>
> (316)

Here Marx seems to be arguing that financial activities are similar to retailing and some branches of public administration: unproductive but useful, not parasitical or predatory.

There is a similar ambivalence in his theory of crises. Marx stresses the contradictory nature of the capitalist production process, most clearly in his analysis of the tendency for the rate of profit to decline (Marx [1894] 1962, part III). This is "a threat to the development of the capitalist production process. It breeds over-production, speculation, crises, and surplus-capital alongside surplus-population" (237). Here "speculation" is clearly identified as a *consequence* of contradictions in the production process, not as their cause. At the same time, however, Marx emphasizes the role of the credit system as "the main lever of over-production and over-speculation in commerce." It is "the contradictory nature of capitalist production" that "constitutes an immanent fetter and barrier to production." But this fetter is "continually broken through by the credit system … credit accelerates the violent eruptions of this contradiction—crises—and thereby the elements of disintegration of the old mode of production" (431–432). This seems to attribute to finance a much less passive role in the explanation of crises.

A similar ambivalence can be found in Marx's approach to crisis theory more generally, and it has spilled over into the attitude of later Marxists, like Maurice Dobb, towards Keynesian macroeconomics. Dobb correctly noted that the *General Theory* emphasized problems with the realization of surplus value, not its production, while Keynes himself had explicitly traced his principle of effective demand back to Marx's *bête noire*, the Reverend Robert Malthus (Dobb 1973, 89–90). Marx, however, regarded underconsumption as "too superficial" to serve as an adequate theory of capitalist crisis (91). Dobb's conclusion was that:

> the conflict between productivity and consumption was one facet of crises and one element of the contradiction which found expression in a periodic breakdown of the system. At the same time, it remained *only* a facet; and it seems clear that Marx considered the contradiction within the sphere of production—the contradiction between growing productive power, consequent on accumulation, and falling profitability of capital, between the *productive forces* and the *productive relations*, of capitalist society—as the essence of the matter.
>
> (Dobb 1973, 121; original emphasis)

Dobb's outright rejection of underconsumption is, I think, mistaken. Reduced to their most simple elements, there are in fact three theories of economic crisis in Marx, which can be found principally—this is a bold generalization—in each of the three volumes of *Capital*. In volume I, the bunching of investment expenditures by capitalists leads to cyclical fluctuations in the size of the reserve army of the unemployed. This in turn gives rise to fluctuations in real wages, in the rate of exploitation and hence in the rate of profit, and it is these fluctuations that drive the business cycle. This theory of crises was emphasized by Dobb in 1973 and rediscovered by Andrew Glyn and Bob Sutcliffe (1972) in their influential account of the "profit squeeze" that ushered in the age of stagflation after 1973.

In *Capital*, volume II, where Marx sets out his original and important analysis of the expanded reproduction of the capitalist economy, considerable attention is paid to the problem of proportionality between the two departments, which produce means of production (department I) and means of consumption (department II); sometimes a further distinction is drawn between wage-goods and luxuries, the latter produced by a third department. The tendency for department I to expand too quickly, relative to department II, is the basis of all underconsumption theories (which might also be described as over-investment theories). It can be expected to occur because of the tendency for real wages to lag behind productivity, so that the rate of exploitation increases, the wage share in net output falls and working-class consumption lags behind the growth of output. The analysis of *Capital*, volume III, also starts from the tendency for department I to grow too fast, relative to department II. But economic crises are now seen as the result of a tendency for the rate of exploitation to rise too *slowly*, if at all, relative to the supposedly inexorable increase in the organic composition of capital, so that the rate of profit falls as a direct consequence of the increasing organic composition.

Given his complex, original and only partly developed insights into the contradictory nature of capitalist economies, what might Marx have made of the global financial crisis that broke out a century and a quarter after his death? First and foremost, he would have denied that his analysis in *Capital* could be applied directly and without modification to a capitalist system that was very different from that of the mid-nineteenth century. The fundamental Marxian principle of historical specificity extends to Marxian political economy itself, as was acknowledged by Second International theorists like Rudolf Hilferding ([1910] 1981): new forms of capitalism require new forms of economic analysis. Second, and notwithstanding this inescapable conclusion, Marx would have recognized in early twentieth-century capitalism three of the defining characteristics of the system that he had known: instability, inequality and globalization. Instability, because capitalism remains crisis-prone, with both the "Golden Age" (1945–1973) and the "Great Moderation" (1992–2007) proving to be temporary and unsustainable. Inequality, on a scale unknown for at least a century and possibly not even then (did Friedrich Engels really earn three hundred times as much as his cotton operatives?). Globalization, confirming what Marx and Engels had prophesied in the *Communist Manifesto* (Hobsbawm 1998) and guaranteeing that contradictions in the capitalist heartland would almost immediately wreak havoc in many parts of the periphery. On all counts, Marx could claim to have told us so.

Which (if any) of the crisis theories set out in *Capital* can be used to explain the global financial crisis is another matter. The "profit squeeze" model of volume I is very clearly inapplicable, since the rate of exploitation (proxied by the inverse of the wage share in GDP) has been rising steadily in almost all advanced capitalist countries since 1980. This casts some doubt on the volume III law of the falling profit rate, since Marx himself identified an increasing rate of surplus value as one of the two powerful "counteracting tendencies" to this law. The other counteracting tendency was the 'cheapening of the elements of constant capital' through labor-saving technical change in the production of means of production. Marx would have been impressed, though probably not amazed, by developments in information technology that give today's five-dollar pocket calculator vastly more computing power than the original Turing machine, a facsimile of which occupies an entire room in the Science Museum in Manchester.

In the final analysis, though, the relevance of the volume III crisis model is an empirical matter, and the evidence remains controversial (Elsner 2013). According to one recent study, the rate of profit in the United States has shown a tendency to increase since 1986 if constant capital is measured in terms of current (replacement) cost, but it displays a downward tendency if a historical cost measure is used. Even then the rate of profit remains high and appears to be falling at a decreasing rate, asymptotically toward a lower limit of 30 percent (Jones 2013, 4, Figure 2). Such a tendency might explain a slight decrease in the rate of accumulation, but how it could have produced a major global crisis is by no means clear.

This leaves the volume II underconsumption model, which does at least fit the facts: the rate of exploitation has indeed increased, so that the purchasing power of the working class has grown much less rapidly than the growth of output (and in the United States it has hardly grown at all, the median real wage having stagnated since c.1970). While this is precisely what Marx predicted, its ramifications would have surprised him. Effective demand was maintained for three decades by increasing capitalist consumption out of profits, a phenomenon that plays no part in the volume II analysis, and by increased working-class consumption financed through debt, which he would have found inconceivable. As Geoff Harcourt once put it, workers now behave "like little capitalists", periodically taking on debt to increase their consumption expenditure and to buy housing. They thereby inadvertently contribute to the increasing fragility of the financial system—fragility that became all too apparent in the northern autumn of 2007.

Much of this would surely have surprised Marx. The most convincing theoretical treatment of it all has come from a "left Keynesian" or Kaleckian perspective, which is Marxian in spirit but distinctly un-Marxian in many crucial details, not least in its reliance on data in market prices and its consequent abandonment of the labor theory of value (Hein 2012; Brennan 2014). Given his overriding methodological principle of historical specificity, however, Marx would have been surprised if he had not been surprised by at least some of the peculiarities of twenty-first century capitalism.

Veblen and the global financial crisis

Thorstein Veblen had a very distinctive view of human behavior, which he derived from his interpretation of the Darwinian theory of evolution. It fell somewhere between the neoclassical and the Marxian positions, neither supposing a universal human nature that was invariably acquisitive, calculating and rational, nor a humanity that was infinitely malleable and entirely conditioned by the social and material relations of production (Hunt and Lautzenheiser 2011, 319). Arguably Veblen was closer to Marx than this implies, since he criticized the universality claimed by neoclassical economics and in effect endorsed Marx's position on the need for economic theory to be historically and socially specific (Henry 1986, 380–384).

Certainly Veblen stressed the importance of instinctive and habitual behavior as the foundations of all social institutions. There were, he believed, two fundamental human instincts, which he termed "workmanship" and "predation":

> Associated with workmanship were traits that Veblen referred to as the "parental instinct" and "the instinct of idle curiosity." These traits were responsible for the advances that had been made in productivity and in the expansion of human mastery over nature. They were also responsible for the degree to which the human needs for affection, cooperation, and creativity were fulfilled. Associated with ... the predatory instinct were human conflict, subjugation, and sexual, racial, and class exploitation.
>
> (Hunt and Lautzenheiser 2011, 320)

This dichotomy was the basis for his theory of social stratification. For Veblen private property was "the result of the 'predatory instinct' and stood in opposition to 'the instinct of workmanship' " (325). There was a degree of continuity between capitalism and pre-capitalist societies, Veblen believed, since both reflected the predation–workmanship dichotomy, both were dominated by a 'leisure class,' and both relied on the lower orders being persuaded to lend their support to the system through institutions of 'ceremonialism' and 'sportsmanship,' reflected in patriotism, nationalism, and war.

He did, however, identify a distinctively capitalist form of the fundamental dichotomy, which took the form of a contrast between 'industry' and 'business.' It was

> a society that was mainly constituted of two major classes, the capitalists (whom he variously referred to as the "vested interests," the "absentee owners," the "leisure class," or the "captains of industry") and the working class (whom he variously referred to as the "engineers," "the workmen," and the "common man").
>
> (Hunt and Lautzenheiser 2011, 324)

The leisure class was much larger in capitalism than it had been in any previous stage of human history, and it depended much less on coercion and brute force to maintain its privileged position:

> The capitalists relied on two principal means of cultural discipline and social control. The first … consisted of patriotism, nationalism, militarism and imperialism. The second means of emotionally and ideologically controlling the population was through emulative consumption (or "consumerism," as this phenomenon later came to be called).
>
> (339)

Emulative consumption involved the workers looking up to their social superiors and aspiring to enjoy something of the same material prosperity as they did; it served to preclude the development of class solidarity and to eliminate the danger of class struggle.

Although Veblen was a harsh critic of neoclassical theory, his approach to microeconomics was not inconsistent with the textbook treatment of monopoly price, or with the theories of imperfect or monopolistic competition that were developed in the 1930s, soon after his death. In the pursuit of profit, he argued, prices were increased and output restricted; ever-increasing excess capacity was the order of the day. "The nature of the control of business over industry was described by Veblen in one term: 'sabotage.' Business sabotaged industry for the sake of profit" (Hunt and Lautzenheiser 2011, 329). The language was more dramatic than that of neoclassical price theory, but the outcome was the same. Veblen denied that government regulation might be able to control or eradicate business sabotage. As in all previous societies, so in capitalism: the state was the agent of the property-owners, and could not be expected to act against their interests. Veblen would have applauded the title of a recent book by James Galbraith (2008), describing the US government as *The Predatory State*.

Where questions of macroeconomics are concerned, John Henry is not the only authority on Veblen to have noted the parallels with Keynes. "Veblen's terminology is in some respects unique," Douglas Dowd wrote half a century ago, "but his analysis is remarkably close to the contemporary income theory based on Keynes's *General Theory*" (Dowd 1964, 45–46). For both men production depends on the expectation of profit, and for both it is deficient effective demand that leads to over-production. In one place Veblen actually uses the term 'effective demand,' but with a different emphasis.

> For Veblen, the tendency for productive capacity to become "too large," with a resulting downward pressure on prices and profits, was an outcome of the unplanned and uncoordinated manner in which productive capacity grew, and the inability of the public to absorb the "inordinate productivity" of modern industry.
>
> (46–47)

Stressing the role of monopoly and the resulting restriction of output, it could even be argued that he had integrated micro and macro more successfully than Keynes had been able to. "On the other hand," Dowd concludes, "Veblen failed to develop an adequate theory of consumption and investment" (47).

This did not prevent him from expressing very strong views about the prospects for the American economy. Dowd quotes the final paragraph of Veblen's last major work, *Absentee Ownership*, in which he predicted "chronic derangement" and "a progressively widening margin of deficiency in the aggregate material output and a progressive shrinkage of the available means of life" (Veblen [1923] 1954, 445, cited by Dowd 1964, 110). Thus "Veblen assumed depression to be the normal condition in a business-enterprise economy, to be relieved in periods of excitation caused by stimuli not intrinsic to the system (e.g. war, expansion abroad)." But Dowd repeats his judgment that "Veblen did not have an adequately worked out theory of employment and business fluctuations" (Dowd 1964, 110). Not all institutionalists would agree with this verdict. Adil Mouhammed, in particular, has argued at some length that Veblen's macroeconomics had much in common with both Marx and Keynes (Mouhammed 1994, 1999, 2000).

I am inclined to side with Dowd on this question. However, the missing theory is not difficult to provide. As Jo and Henry (2015) suggest, Veblen has a more sophisticated view of the role of finance than Marx, and his description of the early twentieth-century 'credit economy' foreshadows the ideas of Hyman Minsky. In two recent papers Jakob Kapeller and Bernhard Schütz (2013, 2014) have set out a formal, stock-flow-consistent model of output, employment, debt, and financial instability that integrates the ideas of Veblen with those of Minsky and interprets the global financial crisis of 2007–2008 in terms that would be understood and accepted by both of them. Increasing inequality in income and wealth means that the losers need to go into debt in order to emulate the conspicuous consumption expenditure of the winners. The resulting increase in the demand for credit is accommodated by increased supply, but only temporarily; in the medium term, growing financial fragility leads to a financial crisis, forced reduction in household debt and depression in the real economy, before the cycle repeats itself. A rather similar model had earlier been produced by Aldo Barba and Marco Pivetti, who also make explicit reference to Veblen (Barba and Pivetti 2009, 122, 126).

The Kapeller–Schütz model needs further development—to include a housing market and also the moral hazard problems that arise when the government acts as lender of last resort—but it expresses the essence of Veblen's ideas very well indeed. Veblen would not have been surprised by the global financial crisis of 2007–2008: not by the predatory behavior of the financial system, not by the scandalous phenomenon of sub-prime mortgages and their securitization, not by the massive government bail-outs of private financial institutions, and certainly not by the apologetic conservatism of the majority of academic economists (Mirowski 2013). Even more than Marx, he could claim that the events of 2007–2008 had confirmed his judgment on the behavior of the "absentee owners" and the "vested interests."

It bears repeating, however, that Veblen was not an economic theorist in the narrow sense: he showed no interest in formal, abstract models of value, growth or crisis. As Hunt and Lautzenheiser put it:

> Marx's theory of crises and depression was somewhat more comprehensive then Veblen's … because Marx did not reject equilibrium theory, he was able to show the equilibrium conditions that would be necessary for smooth, continuous "expanded reproduction," or economic growth. He was thereby able to show the practical impossibility of the continuous fulfillment of these conditions in a capitalist system as well as how a failure of the system to fulfill any of these conditions could easily result in a business cycle, or a depression. Veblen definitely needed a similar theory to reconcile an apparent (but not actual) contradiction in his theory: his perspicacious description of emulative consumption, or "consumerism," would appear to guarantee a perpetual sufficiency of aggregate demand, so that the persistent crises and general stagnation that he believed to be inherent in capitalism would never occur. Had he incorporated something like Marx's theory of sectoral imbalances into his theory, this apparent contradiction would have disappeared and both emulative consumption and depressions could have been shown to be ongoing, inherent characteristics of capitalism.
>
> (2011, 343)

In other words, Veblen lacked a theory of exploitation and was therefore unable to provide a convincing account of the long-run tendency for the share of wages to decline, which undermined the expansionary effects of consumer spending.

Veblen on Marx, Marxists on Veblen

However, Veblen was well-read in contemporary Marxism and cited many of the foremost authorities of his day, including the Austro-Marxist philosopher Max Adler and several of the most prominent German social democrats. However, he regarded Marxism as an outmoded form of romantic philosophy, which had been superseded by the modern evolutionary approach to science. Veblen stressed the Hegelian origins of Marx's thought, which "throws it immediately and uncompromisingly into contrast with Darwinian and post-Darwinian conceptions of evolution" (Veblen 1906, 581, n.2). Unlike Marxism, evolutionary thinking on human society did not entail a belief in progress, "as distinct from retrogression." Neither was it teleological, since it refused to proclaim "a goal to which all lines of progress should converge" (582). Veblen claimed that Marx's doctrine of class struggle owed more to Benthamite utilitarianism than to Hegel. He endorsed Eugen von Böhm-Bawerk's claim that Marx "offers no adequate proof of his labor-value theory," and then trumped the neoclassical Austrian theorist on this point: "It is even safe to go farther, and say that he offers no proof of it" (584–585).

Veblen gave a slightly more favorable assessment of Marx's theory of economic crisis (Veblen 1906, 589–591), but with undue emphasis on its supposed reliance on the absolute immiseration of the working class. In fact underconsumptionist models of crisis require only that real wages rise less rapidly than labor productivity, not that they decline, as Marx himself sometimes (but not invariably) recognized. And Veblen did himself no favors by claiming to rely solely on volume I of *Capital*. "In all that has been said so far," he wrote, "no recourse is had to the second and third volumes of *Kapital*" (593). As already noted, however, any thorough study of Marx's crisis theory must draw on all three volumes.

His overall verdict was that Marxian theory "has for the most part been given up by latter-day socialist writers" (Veblen 1906, 593). This was especially evident in the case of German revisionists like Eduard Bernstein, who were "largely imbued with post-Darwinian concepts," accepted that "the theoretical structures of Marxism collapse when their elements are converted into the terms of modern science," and had therefore given up the romantic, Hegelian belief in progress and teleology (Veblen 1907, 304, 305, n.1). This was also reflected in the day-to-day practice of the German socialists, Veblen maintained, as revealed by their increasing patriotism and nationalism and their support for trade union reformism. And this in turn confirmed the weakness of the Marxian theory of the class struggle:

> Under the Darwinian norm it must be held that man's reasoning is largely controlled by other than logical, intellectual forces … and that the sentiment which animates men, singly or collectively, is as much, or more, an outcome of habit and native propensity as of calculated

> material interest. There is ... no warrant in the Darwinian scheme of things for asserting *a priori* that the class struggle of the working class will bring them to take a stand against the propertied class. It may as well be that their training in subservience to their employers will bring them again to realize the equity and excellence of the established system of subjection and unequal distribution of wealth.
>
> (308)

There are some interesting parallels between Veblen and less orthodox Marxists like Gramsci, Labriola, and Lukacs (O'Hara and Sherman 2004, 971). For the most part, however, European Marxists have shown little interest in his work, while American Marxists have often been sharply critical of him. In his first assessment of Veblen, Paul Sweezy wrote that his "economic analysis is usually weak and often misleading," since he regards capitalism

> in a wholly negative light and thus sees only one side, historically the least important side, of its nature. In Veblen's view, the capitalist operates purely in the realm of finance, and his only relation to production is one of sabotage and obstruction; his object is to mulct the underlying population to the maximum possible degree and to waste the proceeds in ostentatious display.
>
> (Sweezy [1946] 1953, 299)

This is why Veblen sees the industrial engineer as "the truly progressive factor in the modern economy," and suggests that there is "a basic conflict between the capitalist and the engineer" (299). For Sweezy, this is all wrong. It neglects the progressive role of capital accumulation, and fails to see that the engineer is inevitably subordinate to the capitalist. Thus "it inverts the relationship of engineer to capitalist, which is in reality one of dependence of the former on the latter, and makes it appear as a relation of conflict" (299).

This also has consequences for Veblen's economics. "Because he ignored the accumulation process—what modern economists call the problem of savings and investment—he was debarred from developing an adequate theory of employment and of business fluctuations in general" (Sweezy [1946] 1953, 300). It also led him to neglect the role of the state:

> Since Veblen regarded practically all government economic policies as absurd and harmful, he was forced to assume that they must be linked up with the competitive struggle for prestige which, like its twin brother patriotism, is a carry-over from the feudal period.... Indeed, what Veblen wrote on these questions often seems as though it had come from the pen of a nineteenth-century Manchester liberal who had acquired his economics at second hand from Adam Smith.
>
> (300)

Twelve years later Sweezy was less critical, praising Veblen's analysis of unproductive consumption, the suppression of price competition under monopoly and the use of nationalism by the ruling class to deflect the class struggle. In these respects his work "remains astonishingly fresh and relevant" (Sweezy 1958, 27). But there were also serious weaknesses, including the absence of any systematic macroeconomic theory, the neglect of unproductive consumption by the state, and Veblen's mistaken belief that the growth of monopoly power could prevent depressions (28–29).

Paul Baran was no more complimentary, complaining about the "tantalizing lack of precision" in Veblen's thought, which was "distressingly hazy" (Baran [1957] 1969, 211, 212). Veblen had no theory of historical development, Baran continued, and his " 'economic determinism' is of a peculiarly vacillating, bloodless nature" (213). He seems to have regarded simple commodity production as the ideal mode of production. For Baran, even Veblen's celebrated distinction between industry and finance was spurious:

> Nor can this upper stratum be divided—as Veblen frequently suggests—into an "industrial" and a "financiering" group with the former considered to be morally superior to the latter. For neither could exist without the other: without the prince of *haute finance* there could be no captain of large-scale industry.
>
> (217)

Contrary to Veblen, the defects of the capitalist mode of production have nothing to do with "instincts" or "the basic nature of man." Without an understanding of capitalism, Veblen's fundamental concepts—productivity, frugality, waste, conspicuous consumption—"tend to become interesting-looking but actually empty boxes," which only serve to "lead astray both social analysis and social criticism" (217–218). Like Sweezy, Baran insists that not all civil government expenditure is wasteful; he points to spending on hospitals, roads, and public works projects like the Tennessee Valley Authority as examples of socially useful state expenditure (220).

Interestingly, when Baran and Sweezy came together to write their searing condemnation of US capitalism in the mid-1960s they took a much more favorable line on Veblen, whom they now described as "the first economist to recognize and analyze many aspects of monopoly capitalism," not least because he was the first to emphasize the role of what they termed the "sales effort" and the consequent blurring of the distinction between production and selling costs (Baran and Sweezy 1966, 136). They also cited Veblen, approvingly and at some length, on "the social function of militarism," not least its encouragement of unquestioning obedience to authority and the acceptance of subordination (207–208). And they now shared his deep pessimism about the revolutionary potential of the American working class: the one reference to 'class struggle' in the index to *Monopoly Capital* refers to a paragraph in which Baran and Sweezy assert that the "revolutionary initiative against capitalism, which in Marx's day belonged to the proletariat in the advanced countries, has passed into the hands of the impoverished masses in the under-developed countries who are struggling to free themselves from imperialist domination and exploitation" (22).

Conclusion: what is to be done?

Marx is usually thought of as an uncompromising revolutionary, with no time for proposals to reform the capitalist system in the interests of the working class. There is a substantial element of truth in this, but it is not the whole story, since there are hints of a proto-revisionist attitude to peaceful social reform in the thinking of the later Marx (Hollander 2008, 449–462). He was certainly an enthusiastic supporter of the Ten Hours Act of 1844, which forced the factory owners to reduce hours of work and thereby greatly improved the physical, mental and cultural condition of the industrial proletariat. As he told the first meeting of the International Working Men's Association in 1864, it "was not only a great practical success; it was the victory of a principle; it was the first time that in broad daylight the political economy of the middle class succumbed to the political economy of the working class" (Marx [1864] 1962, 383). This great victory was achieved in a thoroughly undemocratic political system in which the working class did not even have the vote, let alone the prospect of taking over the institutions of state. It proved to be of benefit not only to the workers but also to their employers, and indeed to British capitalism as a whole. Yet it was achieved against the strong opposition of the employers and their "hired prize-fighters"—Marx's unforgettable aphorism—in the ranks of contemporary liberal economists.

This proved to be the beginning of more than a century of improvements, culminating in the achievement of full employment, a permanently increased wage share and an extensive system of social security (the "welfare state"), in a process aptly described by Michał Kalecki and Tadeusz Kowalik as the "crucial reform" of capitalism in the post-1945 golden age (King 2013). Much of it has been undone in the age of neoliberalism, and Marx (again) would not have been surprised by the return of mass unemployment, the growth of inequality and the re-emergence of insecurity as a central fact of working-class life. But, given his attitude to the great victory of 1844, there is no reason to suppose that he would rule out the possibility of substantial reforms in 2015, given that the dangers of persisting with an unreformed system are evident even to a minority of enlightened capitalists and their protagonists in the economics profession.

By the end of his life, Veblen seems to have been much more skeptical than either Marx or the German revisionists about the prospects for serious social reform. In the 1890s he had believed that "the tide was going in favor of the forces of socialism, or the values of workmanship, and against the forces of business, or the pecuniary values and the predatory instinct" (Hunt and Lautzenheiser 2011, 341). In 1919, in the immediate aftermath of the Bolshevik revolution, he wrote that "the industrial dictatorship of the captains of finance is now held on sufferance of the engineers and is liable at any time to be discontinued at their discretion" (Veblen [1921] 1965, 82). But there was no real possibility, Veblen argued, that a "Soviet of Technicians" would carry out "an effectual revolutionary overturn in America, such as would unsettle the established order and unseat those Vested Interests that now control the country's industrial system" (138). This deep underlying pessimism was soon reinforced by the

> hysterically repressive aftermath—the Great Red Scare, the Palmer raids, and the blind acquiescence of the majority of people to the systematic government onslaught on all progressive and socialist movements. Veblen's mood changed from one of cautious optimism to one of despair and pessimism. The future looked very bleak.
>
> (Hunt and Lautzenheiser 2011, 341)

Veblen would not have been surprised by the violent suppression of the 'Occupy Wall Street' movement or by the ability of the Vested Interests to enlist the US government in support of a speedy return to 'business as usual' in the wake of the global financial crisis.

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3 The contemporary relevance of Karl Marx's heterodox political economy

Phillip Anthony O'Hara

Introduction

John Henry's main heterodox political economy influences are Karl Marx (1818–83) and Thorstein Veblen (1857–1929), and their followers, since Marx and Veblen critically examined the institutional workings of capitalism and encouraged the "workers" or the "common people" to instigate progressive socioeconomic change. I have already written about the linkages between Marx and Veblen (O'Hara 2000), and the contemporary relevance of Veblen (O'Hara 2002); so here I concentrate on the contemporary relevance of Marx's political economy, drawing in part on Henry's analysis. In so doing, I dedicate this chapter to John Henry, for his substantial contributions to heterodox political economy.

Karl Marx created a unique and expansive political economy framework for comprehending the structure and dynamics of capitalism and other socioeconomic systems; and promoting the concerns of socialism. His analysis developed out of a critical scrutiny of, especially, classical political economy, European socialism and Hegelian dialectics. But political economy, as reflected in his critique of existing literature, was the foundation of his creative scholarly endeavors. He sought nothing less than to understand the system of capitalist development to provide a foundation for progressive social and political change.

It has become fashionable in recent years to discuss the contemporary relevance of Marx, to subjects such as anthropology (Roseberry 1997), accounting (Tinker 1999), ecology (Gimenez 2000), oppression within the work environment (Burkett 2000), gender relations and feminism (Gimenez 2005) plus organization studies (Adler 2009). Some have also scrutinized the relevance of Marx to "economic questions" more narrowly viewed vis-à-vis value, price, and competition (Milward 2000; Saad-Filho 2002; Potts 2005); and also in relation to the Great International Crises of 2008 onwards (*IJPE* 2011). All of these mostly positive evaluations of Marx's relevance are directly or indirectly relevant to this present chapter. However, here we specifically center on the *contribution of Marx to political economy, as a historico-institutional perspective on reality*, which includes but is broader than the economistic view; along the lines of the approaches of Bill Dugger, John Elliott, Daniel Fusfeld, David Gordon, John Henry, E. K. Hunt, Howard Sherman, and Ron Stanfield—radical institutionalists and institutional Marxists—and linking it to contemporary research, evidence, issues, and problems.

John Gurley's (1984) paper is the only reference that examines the "contemporary" relevance of Marx in the same broad scope as this current study. Gurley scrutinizes this theme of Marx's contributions to *historico-institutional political economy* and whether Marx would have seen much of a link between his ideas and the contemporary world (if he revisited planet Earth). Gurley concludes that Marx's main contributions to political economy were in the areas of (1) the materialistic conception of history; (2) the circuit of capital and exploitation; (3) capital and cycles; (4) the theory of the state; (5) worker alienation and mystification; (6) the impact of capitalism on less developed nations; and (7) socialism and communism. He believes that Marx would have seen a close resemblance between his contributions and modern capitalism, especially in relation to the transitory nature of capitalism, exploitation of workers, accumulation dynamics and cycles. Gurley, though, thinks that Marx would have been surprised by the extent of state involvement in the economy, and the lack of "real" (as distinct from bureaucratic) socialism in the world. However, Gurley's work is very brief with little detail into theory and research; besides which, the paper is three decades old now, and so needs updating.

Here we examine *Marx's broad heterodox political economy approach* in the light of contemporary research, tendencies, and processes. The chapter runs from the general to the specific, starting with political economy Book Plans; and historico-evolutionary systems; then turning to holism and interdependency; followed by contradictory antinomies, such as between capital and labor; turning thereafter to the circuit of social capital; then scrutinizing income determination, endogenous crises and cycles; and finishing with socialism and communism. By taking a realist approach, Marx was able to develop and inspire further advances on the principles of heterodox political economy applied to the relationship between economy, society, polity, and culture; production, distribution, exchange, and reproduction; crises, instability, and cycles; as well as institutional advances toward more expansive, democratic, and inclusive political and social economies.

Book Plans for heterodox political economy

First we outline Marx's main works and Book Plans for political economy. His first core work in political economy was his notebook, *The Economic and Philosophical Manuscripts of 1844* (Marx [1844] 1959; the "Paris Manuscripts"), where he scrutinized the alienation of workers in the process of production, from their product, from each other, and from their species being. This was followed by *The German Ideology* (Marx and Engels [1845–1846] 1976), the first elaboration of the materialist conception of history (unpublished in their lifetime); Marx's published critique of Proudhon in *The Poverty of Philosophy* (Marx [1847] 1973); and the famous *Communist Manifesto* (Marx and Engels [1848] 1972). The *Manifesto* centered on the main contradiction of capitalism, between the revolutionary spread of its institutions and technologies throughout the global economy along with the incessant generation of instability, social dislocation, and inequality.

Marx then undertook a major research project during the 1850s, partly at the British Museum, the outcome of which was the massive *Grundrisse* manuscripts/notebooks (Marx [1857–1858] 1973; the "first outline/draft of Capital"), where he examined precapitalist formations and worked out his analysis of alienation and exploitation; the production and circulation of capital and surplus value; and the contradictions between use-value and exchange value, capital versus labor, production and circulation, plus overproduction and limited markets. Soon after, *A Contribution to a Critique of Political Economy* ([1859] 1970) was published, which included the famous and controversial "Preface," which very briefly outlined the materialistic conception of history.

From the time of the *Grundrisse* until the early 1860s Marx was explicit about his research program centering on a "6-Book Plan," starting with (1) capital, then *successively interlinking this with* (2) landed property, and (3) wage labor (the dominant classes of capitalism); followed by further links to (4) the state, (5) foreign trade, and (6) the world economy and crises ("(6)" being the most concrete and integrated book). Elsewhere I have called this the "desired plan" of Marx (O'Hara 2015). But starting in 1862–1863, Marx began working on a different plan, what I have called his "lifetime 'capital' plan," including four books: (i) the production process of capital, (ii) the circulation process of capital, (iii) the (dis)unity of production and circulation, and (iv) a critical history of political economy. With this "4-Book Plan" Marx was to include *some* material on wage labor in "production," and some aspects of landed property in "production and circulation" (see Oakley 1983 for details).

Other "drafts of Capital" (the 4-Book Plan) emerged, including the *Manuscripts of 1861–1863*, the *Manuscripts of 1864–1865*, plus further manuscripts of the 1870s (see Bellofiore and Fineschi 2009), while the only (final draft) volume fully worked out by Marx was published in German (and later in other languages) as *Capital, volume one* (Marx 1867) on the sphere of production. Volumes two (circulation) and three (competition and the breakup of surplus into profit, interest and rent) of *Capital* were edited and published by Engels after Marx's death (Marx 1978, 1981; see Oakley 1983).

Scrutinizing the contemporary relevance of Marx's political economy, it is reasonable then to say that we can follow him through a synthesis of *both* of these Book Plans, which requires examining the production and circulation of capital, and linking this with competition; profit, interest, and rent; money and credit; and political economy history; as well as linking capital with more details on wage labor, landed property, the state, and (most importantly) the world economy and crises (see Lebowitz 2009). Just how we might do this in the *current environment* is open to debate (see O'Hara 2015 for details). One option is to reorganize the work into a "5-Book Plan," using the method of successive approximation, as shown below.

Five-Book Plan: "successive approximations" (linkages) between books

- *Book I: Planet Earth:* History, evolution, global, and geopolitical situating of the world; modes of production and social formations; class, gender, ethnicity; technology and institutions; capitalism and political economy; ecological issues.
- *Book II: Capitalism and Surplus:* Production, distribution, circulation, and reproduction of income and surplus (circuit of social capital; labor process; innovation; markets; turnover; competition; rate of profit; money and credit; fictitious capitals; business cycles; growth vs. equity/ecology; theoretical and empirical examples).
- *Book III: Institutions, Habits, Networks:* Details on institutions and phases of evolution of capitalism through, e.g., social structures of accumulation (SSAs) and modes of regulation (MOR): households, corporation, finance, distribution, state, globalization, etc.
- *Book IV: Governance and Problems:* State, community and policy (in detail) (national, regional, and global dimensions) and the main socioeconomic problems of the age.
- *Book V: Past and Future:* Alternatives to neoliberal capitalism (progressive capitalism; socialism; Islamic governance; fascism, etc.).

The main differences between Marx's "desired plan" and this 5-Book Plan relate to advances in political economy theory and empirics in recent decades, and a rethinking of the overall program, including, first, the advent of the latest phase of globalization (putting world economy in Book I rather than Book 6); secondly, including SSAs and MORs (due to recent research, in Book III); and thirdly dealing with history and evolution (Book I) and alternative systems (Book V) in the *method of presentation* (Book Plans) rather than as Marx did in the *method of inquiry* (pre-presentation) (see Marx 1867, 102).

Principle of evolutionary systems

In relation to the first book of the 5-Book Plan, Marx knew that in order to comprehend the structure and evolution of capitalism he would have to study the broad history of humanity on planet Earth, paying special attention to the development of modes of production, social formations, classes, technologies, and institutions. This *principle of evolution* is part of the so-called materialistic conception of history, where Marx grounded his political economy in an historical analysis of socioeconomic systems. Often he took a schematic approach to investigating the evolution of society from (i) primitive communism, through to (ii) slavery, (iii) feudalism, (iv) capitalism, and (v) socialism (e.g., in the "Preface" of 1859); with some caveats about the Asiatic mode of production. More detail is provided in the *Grundrisse* about these pre-capitalist systems, including their structure and evolution. The history of humanity has thus seen different modes of production, including early collectivist forms; followed by different class methods of expropriating the surplus—through master and slave; lord and serf; capitalist and worker; followed by recent communitarian forms, such as the Mondragon experiment in Spain and the Indian state of Kerala. Marxist research has also contributed to the analysis of the transition from one mode of production to another (e.g., see Sweezy *et al.* 1982).

Marx was influenced by the Scottish historical school, especially in relation to the role of subsistence, institutions, and unintended consequences of action. Lewis H. Morgan (1818–1881) was an influence on Marx ([1880–1882] 1974) and also Veblen ([1899] 1979), through Morgan's threefold stages of savagery, barbarism, and civilization. Engels ([1884] 1977) used Marx's notebooks of 1880–1882, Morgan's research, and others for his *The Family, Private Property and the State*. In archaeology, the most influential broadly Marxist scholar was V. Gordon Childe (1892–1957), who was also influenced by Morgan and inspired modern Marxists plus the schools of processual and post-processual archaeology. More latterly, some have developed more theoretical approaches to modes of production (e.g., Hindess and Hirst 1975), or more anthropological and social formation approaches (e.g., Sanderson 1991). Chris Harman's (2008) *A People's History of the World* did some good synthesizing in Marxist historiography; and David Christian's (2005) *Maps of Time: An Introduction to Big History* is required reading for political economists, taking as it does a more eclectic and original approach to the subject.

Marx studied the evolution of capitalism from (a) "mercantilism" through to (b) "manufacture," (c) "competitive" capitalism, (d) industrial capitalism; along with the tendency for greater concentration and centralization of capital. Regarding capitalism, Marx situated all the major phases of evolution which were apparent up until his own time (mercantilism, manufacture, competitive, large-scale production), and he recognized the trend toward globalization and centralization inherent in its movement. Phases of evolution of capitalism were thus a core part of his political economy approach, scrutinizing changes in the class relations, institutional configurations and technological forces. Marx's work on class and exploitation, inextricably linked to these phases, inspired the work of rational choice Marxists (e.g., Roemer 1982), rethinking Marxists (Resnick and Wolff 1987), and much further debate on the class analysis (e.g., Wright 1989); as well as more institutional work on segmented labor, the nature of work, and linking class with gender and ethnicity (see the journals *Review of Radical Political Economics*; *Capital and Class*; *Politics and Society*; *Rethinking Marxism*; *Journal of Economic Issues*; *The Insurgent Sociologist* [now called *Critical Sociology*]).

Numerous Marxian political economists have sought to expand on the phases of evolution approach to capitalism, such as the Uno Japanese School, long wave analysts, social structure of accumulation (SSA) and Regulation scholars, the Monthly Review School, and the more concrete historical analyses of Eric Hobsbawm and Immanuel Wallerstein. Many of them also recognize that through uneven development various nations deviate from any general pattern; and more recently the *varieties of capitalism* research program has instilled into political economy the need to recognize these different forms of capitalism. An approach which is similar to some of the above ways of periodizing capitalism sees the phases as various long waves of metamorphosis of capitalism. This view started through the creative work of scholars such as van Gelderen, de Wolff, Nicholai Kondratieff, and Joseph Schumpeter. Since the 1970s more complexity has been introduced into long wave analysis through, for instance, the work of Ernest Mandel (1995); and more especially that of David Gordon (1998, ch. 6), Michel Aglietta ([1976] 1979), world-systems analysis, as well as the contemporary SSA and Regulation approaches to the historical interface between technology and institutions.

Table 3.1 provides a summary of these phases of long wave motion for the major capitalist nations, including periodicity, technological and institutional dynamics; *while we recognize the existence of uneven developments, historical complexities and different varieties of capitalism*. The various phases of evolution of capitalism start with mercantilism in the sixteenth to the eighteenth centuries; followed by *the phases of capitalism proper*, including (i) competitive capitalism of the industrial revolution (1780s to 1840s); (ii) industrial capitalism and the emergence of large-scale industry (1850s to 1890s); (iii) imperialism, world wars and the emergence of finance capital and big business (1890s to 1940s); plus (iv) the evolution of the Fordist/Keynesian system of the 1950s to 1980s and the emergence of neoliberalism, globalization, and the flexible system into the 1980s to 2010s.

There have thus far been four long wave phases of evolution of modern capitalism, especially in the Core (advanced nations). The first (upswing) was initiated in the environment of the French and American revolutions during the 1780s and 1790s; the second during the time of the gold rushes in Australia and California in the 1850s; the third upwave started during an important period of globalization, especially during the mid to late 1890s; the fourth went forward after World War II in the late 1940s and

Table 3.1 Phases of long wave evolution: major capitalist nations

	Date	*Long Wave*	*Upswing*	*Downswing*	*Technology style*	*Institutions*
Long Wave Phase 1	1780s–1840s	Industrial Revolution ("Competitive Capitalism")	1780s–1810s	1810s–1840s	Cotton textiles; iron and steam power; furnace iron smelting; crop rotation	Age of revolutions, simple control of labor, nationalism, entrepreneurial business
Long Wave Phase 2	1850s–1890s	Emergence of Large-scale Industry	1850s–1870s	1870s–1890s	Steam engine, railways, gold	British hegemony, joint stock company, from simple to technical labor control
Long Wave Phase 3	1890s–1930s	Finance Capital, Big Business, and Imperialism	1890s–1910s	1910s–1930s	Electricity and chemicals	Finance capital, imperialism, big business, modern party system, technical labor control
Long Wave Phase 4	1940s–2010s?	Postwar Global Fordism to Neoliberal Globalization	1940s–1970s	1970s–2010s	Internal combustion engine, assembly lines, oil	Fordism, Keynesian-welfare state, US hegemony, bureaucratic labor control → onto neoliberalism, flexible system, globalization
Long Wave Phase 5?	2020s–2080s?	Globalization and Information Technology?	2020s–2050s?	2050s–2080s?	Electronics, biotechnology?	Globalization, deregulation, neoliberalism? Or: Embedded liberalism, social capital and balance of industry and finance?

Source: adapted from O'Hara (2001, 2006, forthcoming).

1950s; and a fifth *possible* upswing may emerge during the second or third decades of the twenty-first century. The first downwave emerged after 1815, leading up to and including the European revolutions of 1830 and 1848; the second downswing occurred during the "long contraction" of the 1870s to 1890s; the third downwave included the period from the World War I through to World War II; and the fourth downswing was during the 1970s to 2010s. Long wave upswings tend to generate periodic minor recessions and a relative absence of major financial crises; while long downswings are characterized by periodic deep recessions/depressions every decade or so and a series of major financial crises as well as debt crises (e.g., the Great International Crises of 2008–2014).

The basic idea behind these *non-deterministic* long wave phases of evolution is that the durable structures of the economy evolve over time in relatively complex patterns of development and demise. Some theorists concentrate on the life of durable fixed capital (Kondratieff, Forrester), others on technology (Schumpeter, Freeman), still others on changing center–periphery relations (Wallerstein), while another group concentrates on a more holistic inclusion of institutions and social relations (SSA and Regulation approaches: Kotz, McDonough, Reich, Aglietta, etc.). The holistic approach is becoming the norm among wave scholars as the evidence tends to support a multi-factor perspective. There is also now less emphasis on strict periodicity, amplitude, and regularity as many wave scholars have become more interested in the *complexity* of historical change rather than deterministic views of reality (see O'Hara 2012).

Typically, during the first half of each 40–80-year wave, institutional and technological innovations pave the way for two or three decades (or more) of quite strong economic growth and development, since recessions and financial instabilities are usually relatively moderate. For instance, this was the case for *most advanced nations* during the postwar boom of the late 1940s through to the 1970s. But eventually the institutional and technological innovations become exhausted as the *contradictions* within the system heightened; which led to 2–3 decades (or more) of less impressive growth and development as periodic recessions and financial instabilities have been quite intense. This occurred for *most nations of the world* from the 1970s or 1980s through to the 2010s (so far). Currently a major factor preventing numerous Core nations plus the world—and many others—from moving into a new phase of long wave upswing, is the continuing persistence of difficulties, including the negative effects of the Great International Crises of 2008–14 which have not yet released their hold on a number of countries and regions (especially Greece, Spain, and Italy); also affecting global growth and development.

Gordon *et al.* (1982) have argued that the nature of labor has evolved along with these long waves. For instance, in the transition from the downswing of the first long wave through to the downswing of the second long wave (1820s to 1890s) they saw the process of "initial proletarianization," through the development and intensification of wage labor as an institution in the core economies (especially in the United States). From the time of the long downswing of the second wave, through to the downswing of the third (1870s to 1940s), they identified a stage of "homogenization of labor," when common, semi-skilled labor became predominant. Then from the long downswing of the third wave through to the early years of the fourth downswing (1920s to 1980s) they saw the entrenchment and evolution of segmented labor, between primary, secondary, and lumpen categories; plus segments within these broad categories. Further work into the 1990s to 2010s recognizes the trend to "neo-Taylorist and flexible labor" in the core capitalist economies.

There are also *uneven developments* within this general long wave periodicity, with certain semi-peripheral or peripheral nations (in particular) deviating from the norm; the Chinese and East Asian experience of long wave upswing during the Core downswing of the 1970s to 2010s being one the most notable examples. Also, recent decades have seen the Middle East and much of Central and Eastern Europe hovering around "borderline" performance or somewhat higher, generating better results than the Core (see O'Hara 2012 for details). Also, currently there are *different varieties of capitalism*, ranging from, for instance, that of "state capitalism" (China and Russia), to "peripheral capitalism of the Core" (Italy and Greece) to liberal market economies (United States, United Kingdom, and Canada) and "coordinated advanced market economies" (Japan, Sweden, and Germany). All these complexities need to be taken into account in the global analysis of wave phases.

Principle of holism

Once the historical evolution of socioeconomic systems, including capitalism, is understood it becomes easier to situate capitalism, including its inner motion and the interplay of its subsystems. A fundamental notion underlying Marx's political economy is the *principle of holism*, which recognizes that capitalism (plus other systems) needs to be situated in a wider tapestry of economic, social, political, and legal relations; including the institutions of the family, corporation, markets, finance, state, and world economy.

Economic, social, political, and cultural relations

In the "Preface" to *A Contribution to a Critique of Political Economy*, Marx ([1859] 1970) puts forward a preliminary hypothesis that the economic base forms a structure that fundamentally conditions the workings of the other major institutions of political, social, and cultural organization. More specifically he says that it is likely that the political and social order will tend to reflect the power structures underlying the economy. Culture and legality, therefore, tend to legitimize as well as to mystify the origins of power and authority. This hypothesis was revolutionary for its time. It has since provided a foundation for thousands of studies, criticisms, and even political manifestoes of various shades over the past century and a half. Many of the criticisms of this thesis have come from Western Marxists (see *NLR* 1978) and institutionalists (see O'Hara 2000, ch. 3) who argue that there are *critical interdependencies* between these levels of social reality (and between structures and individuals, including between forces and relations of production), well beyond reality "in the last instance" being determined by the forces of production or economic factors.

In *The German Ideology* and *Grundrisse* Marx scrutinizes these modes of production in a much more holistic/dialectical fashion than the "Preface," drawing away from the crude base-superstructure approach. Along these lines, Melvin Rader (1979) argues that there are three main models of interdependency and change in Marx's works, the (i) base-superstructure, (ii) holistic, and (iii) dialectical models, and that the latter two are best fused to comprehend the dynamic workings of the system. Rader is correct that the base-superstructure model is too deterministic for comprehending most changes in the political economy of capitalism. In modern discourse on Marxian change and motion, a core trend is to argue that economic, political, social, cultural, and legal relationships are interdependent. One version of this is that institutional spheres such as the family, state, corporation, finance, world economy, etc., each include *within* (especially) and between them an array of economic, political, social, and cultural practices, norms, and beliefs (see Bowles and Gintis 1981).

Social structures of accumulation (SSAs)

This new alignment of economic, political, social, and cultural processes within specific institutional spheres situates Marxian themes as a form of institutional political economy (see Dugger and Sherman 2000; O'Hara 2000). Marxian themes have become regrounded as requiring capitalism to go beyond market relations through an instituted economy that requires relative stability, conflict resolution, and long-term performance for viable socioeconomic reproduction. There are potential micro SSAs, macro SSAs, and global SSAs. The micro/meso SSAs may include institutions within families, firms, labor processes, markets, states, financial organizations, and world economy organizations. Macro (or global) SSAs operate when most of the dominant micro/meso/macro (or global) institutions are providing sufficient stability, conflict resolution, and performance (Wolfson 1994; O'Hara 2006; McDonough *et al.* 2010; Lippit 2014).

According to *most* SSA and Regulation approaches, global neoliberalism fails to adequately consider or provide system-functions or public goods that protect capitalist relationships through the long term. It is thus said to be too narrowly supporting the vested interests of certain individuals, classes, businesses, and regions. The system functions of (i) economy being embedded in society, (ii) capital–labor accord, (iii) competition–monopoly balance, (iv) state/citizen accord, and (v) global accord, have been left out of the neoliberal agenda, preventing the formation of a sustainable series of micro/meso, macro, and global SSAs. Free market economics is seen as too narrow in formulating the central principles and problems of political economy. In failing to promote the general long-term interests of capitalism it wastes the surplus on projects that support the dominant elites.

Overdetermination and multiple causality

Critical to the holistic analysis of processes is the *principle of overdetermination*, developed by Resnick and Wolff (1987; see also the journal *Rethinking Marxism*), which castigates deterministic thinking, moving instead toward multiple and complex causality. Overdetermination states that we need to take various "entry points" into discourse to make sense of the world, and once we have done this we need to recognize the multifarious elements impinging on socioeconomic processes. Hence, rather than arguing that the causes of inflation are excessive expansion of the money supply, or that unemployment is simply due to undeveloped human capital, overdeterminists argue that causality is often very complex and interactive. This expansion of analysis toward the circular and cumulative patterns analyzed by Gunnar Myrdal and Nicholas Kaldor leads to open-systems analysis, interdisciplinary perspectives, and multi-causal endogenous processes. It also leads the inquiry away from strict disciplinary boundaries and opens up interfaces between economics and society, polity, biology, and environmental sciences. In this context, political economy becomes a *systems science* that links to other sciences and perspectives.

Once we recognize the importance of open systems, complexity, emergence, endogenous processes, overdetermined relationships, and institutions, political economy emerges as an interdisciplinary system of analysis. The range of topics examinable becomes very wide, encompassing, for instance, within the framework of the 5-Book Plan, the critical questions of the age, such as in the contemporary environment such things as global poverty and disease, terrorism and hegemony, climate change and pollution, growth and development, quality of life and happiness, governance and policy, and so on. In this circular and cumulative perspective, therefore, Marx teaches us to have a holistic/dialectical perspective which centers on the critical problems of the world. His multifactor method of reproduction reveals him as one of the great, visionary thinkers who saw things through a wider, clearer vision than most others.

Principle of internal contradiction

A core element of Marx's political economy is the *principle of internal contradiction* (PIC). Marx took from Hegel the idea that motion and change are largely due to internal contradictions, and that these contradictions are especially critical to historical metamorphosis and structural change. But whereas Hegel saw mainly abstract contradictions Marx emphasized their realistic underpinnings. The core contradictions of the system relate to the relative power or resources distributed to one or the other aspect of the realistic oppositions ("social opportunity costs"): use-values or exchange values; capital or labor; monopoly or competition; finance or industry; rural or urban; individual or society (see Henry 2007); profit or environment, etc. More recent research has added further contradictory dialectics, such as that between men and women (feminists); ethnic group versus ethnic group (radical political economists); nation or region versus nation or region (world-systems analysts). Below we *outline* how some of the dominant contradictions interact.

Capitalism, including its agents and institutions, is required to continually expand exchange-values for ongoing reproduction, but to do this requires greater use-values as well. There are, however, anomalies in expanding exchange-values, especially regarding the quasi-commodities of labor power, money, and natural resources. The revolutionary nature of capitalism enables it to often expand production (use-values), at the expense of nature and labor-power, but the institutional conditions for realizing the output on the market (exchange values) are often anomalous, especially because of the contradiction between capital and labor. This is partly because the wages paid for labor-power are often insufficient to realize the necessary monies on the market. But higher wages (beyond a certain range) can be a problem too, as these may reduce profits and thereby inhibit reinvestment of the surplus. Hence the contradiction, which "works in both directions."

Gary Young (1976) and David Harvey (2014) note that these contradictions "move around." So if exchange-values are insufficient for promoting use-values, the system (including its agents and institutions) often responds by including other contradictions into its operational dynamics, so as to hopefully temporarily resolve the anomaly. For instance, in the face of insufficient demand as real wages are low, capital can move more into the realm of circulation to enhance the circuit. One response involves the contradiction between industry and finance: credit can be enhanced to expand demand (see Minsky 1986). Another strategy can involve the contradiction between nations: expanding on the world scale to realize the output. A third may involve the contradiction between capital/citizens and the state: expanding state spending. A fourth may involve modifying the capital–labor relation: expanding workers' needs, wants, and use-values through advertising, cultural changes, and wage increases (mentioned above).

These new contradictions may enable resolution of the exchange value problem for a time, by expanding the realization of the surplus *product* so that it becomes surplus *value* (realized on the market), but they also usually push the contradictions to a higher level of anomalous reproduction (especially in the long term). The expansion of credit may be used to purchase speculative assets such as equities, real estate, and securitized assets, which may periodically lead to crashes as the speculative asset prices fail to accord with fundamentals (labor values). Expanding on a world scale may lead businesses to move overseas thus inhibiting exports (for the nation) in the longer run. Expanding state spending may represent more unproductive activities which inhibit productivity in the future. And expanding workers' expectations and wants may reduce profit rates and shares as the power of labor expands relative to that of capital (leading to lower reserve army, higher wages, etc.; or if financed from credit, problems with repayments). These contradictions move around, with quite complex dynamics often through evolution, waves, and cycles.

The fifth contradiction of capitalism is that between profit and the environment; what ecological political economists have called the "second contradiction of capitalism." Journals such as *Capitalism Nature Socialism* (e.g., O'Connor 1988) and *Ecological Economics* (e.g., O'Hara 2009) have led the way to further theoretical and empirical evidence and analysis. Authors such as John Bellamy Foster (2000) document Marx's own impressive work on metabolic rift and the treadmill of production. These works demonstrate that there are trade-offs between profit (also production, consumption, population) and ecological assets/capital. But these trade-offs are limited—cf. the principle of strong sustainability—since as ecological resources are destroyed (in the interests of business and conspicuous consumers), beyond a certain point they are incapable of being regenerated sufficiently. For instance, due to various *tipping points*, once greenhouse gases reach a certain threshold, temperature increases, extreme climate events, and rising water levels become irreversible; and beyond another threshold the extreme events are likely to increase exponentially.

There are numerous other contradictions, involving the disembedded economy (O'Hara 2006), monopoly and competition (Diesing 1999), men and women (Firestone 1970), and various ethnic groups (for more details, see Lippit 2014; Harvey 2014; O'Hara 2014). While it was Hegel who first detailed the notion of internal contradiction, and Marx who incorporated it successfully into political economy, modern scholars have formalized and developed it further, and applied it to numerous socioeconomic problems and policies. But there is a lot more research needed on the principle and its application to numerous real-world problems.

Principle of the circuit of social capital

In *Capital*, Marx scrutinized the production, circulation, exchange, and distribution of value and surplus value through the circuit of social capital. In volume one of *Capital* labor values were assumed to correspond with market prices, while circulation was assumed to be realized as Marx concentrated on the production process of capital. Volume two analyzed the sphere of circulation in detail, including the turnover of capital, transportation, the money circuit, and their influence on growth and reproduction. Volume three specifically introduced competition and sectoral differences in the organic compositions of capital; transformation problem; falling rate of profit/counter-tendencies; and the breakup of surplus into profit, interest, and rent (plus details on money and credit). Historically much emphasis has been given to *issues of value and price* in Marxian economics. It is sufficient to mention here that there have been many solutions to this general issue, including the transformation problem (see Bellofiore 1989 for a *monetary* labor theory).

For instance, Fred Moseley (1993) argues that Marx actually did devise a proper method of transforming inputs into outputs for the value-price domains; and, in any case, numerous, some quite sophisticated, methods have been devised for "solving" the so-called transformation problem. These include, among others, the "new" solution (see Campbell 1997); a "Rethinking Marxism" approach (Wolff *et al.* 1984); and a "disequilibrium method" (Freeman and Carchedi 1996). Nonetheless, numerous political economists continue to eschew any discussion of value, and it is possible to analyze the surplus without any reference to value and exploitation—e.g., through the notion of the "economic surplus" as originally developed by Paul Baran (1957); plus Sraffian; and also Marx-Keynes approaches to the surplus (e.g., Lee and Jo 2011).

Whether such heterodox scholars critique, ignore, or solve *value-price issues*, most of them recognize the centrality of the circuit of capital as a realistic tool of political economy analysis. Embedding contradictions in the dynamic circuit of capital and endogenous crises and cycles helps to bring Marx's work alive. In *Capital*, especially volumes two and three, he recognized more deeply than in the *Grundrisse* the importance of the reciprocal interactions between the different moments of social reproduction—production, distribution, exchange, and consumption—and brought his political economy to a greater level of sophistication. As he said, for instance, in volume two of *Capital*:

> It is a necessary condition for the overall production process, in other words for the *social capital*, that this is at the same time *a process of reproduction*, and hence the circuit of each of its moments.... It is only in the unity of the three circuits that the continuity of the overall process is realized.... The *total social capital* always possesses this continuity,

> and its process always contains the unity of the *three circuits*.... Capital, as self-valorizing value, *does not just comprise class relations*.... It is a movement.... Hence it can only be grasped as a *movement*, and not as a static thing.
>
> (Marx 1978, 184, 185, emphases added)

Marx recognized the need to situate capital as a circuit of relationships where the contradictions impact on the speed of motion, including the turnover of value and surplus value (Arthur and Reuten 1998). The various phases of (i) investment, (ii) production, (iii) exchange—plus two often ignored, including (iv) redistribution/allocation and (v) refinancing—are shown below (in their barest essentials):

$$M \leftrightarrow C^{LP}_{MOP} \ldots P \ldots C + c \leftrightarrow M + m \Vdash \rho + i + r$$

The *basic* circuit of money capital commences with the exchange ($\leftrightarrow$) of money (M) for intermediate commodities (C), such as labor power (LP) and means of production (MOP); followed by the reproduction ($\ldots P \ldots$) of product and surplus product as exchange is interrupted within the "hidden abode of production" (labor process), resulting in the value of final commodities ($C+c$) usually being more than their inputs (surplus product $= c$); followed by the realization of cost of production (M) and surplus value (m) through market sales of "final product" ($[C+c] \leftrightarrow [M+m]$); the "Keynes process"); the surplus value then being variously redistributed/allocated ($\Vdash$) to industrial capitalists as profit (ρ), as well as money capitalists as interest and fees (i), and rentiers as rent (r); then the reactivation or refinancing of money from industrial profits or credit into further rounds of industrial (including 'services') investment ($\rho \rightarrow M$; usually ignored); and so on, through several rounds (Marx 1978, 1981).

The circuit of social capital is a critical tool of political economy because it expresses a number of powerful insights. It shows that the creation of surplus value is not just dependent upon the exploitation of labor (see Henry 1975 on the distinction between exploitation and oppression), but also on the ability of various institutions and organizations to condition the circuit. These include, for instance, supply chains affecting the availability of raw materials, factories and machinery; the organization of the firm, its system of management, supervision and marketing; finance for production, as well as fictitious capitals; plus international relations of trade and investment that foster or inhibit accumulation and innovation. It also shows that creating surplus *product* is not enough since the product needs to be transformed into realized monetary values for the surplus to be *effective*. And it shows that the exploitation of labor requires the *value of labor power to be less than the value created by labor* and sold in markets. For this to happen there needs to be an institutional separation between the selling of labor power and the sale of the final product or service.

The circuit of social capital can be applied to dynamic historico-institutional aspects of capitalism. One of the earlier studies was by Christian Palloix (1977) who applied it to the internationalization of accumulation. Many studies have applied it to specific institutional dynamics of capitalism, including the work of Aglietta ([1976] 1979), O'Connor (1984), and Gordon (1998), who have generally managed to extend the circuit to spheres such as finance, corporation, consumption, and the state. Other studies have successfully linked the circuit to business cycles and general growth dynamics (Alemi and Foley 1997) and economic crises (Fine and Saad-Filho 2004). It is especially appropriate to apply it to the question of crisis and instability, since the circuit can be linked to a myriad of issues; such as the availability and quality of labor power and raw materials, the inability to extract surplus product within the sphere of production, a lack of aggregate demand which reduces the turnover of capital and surplus value, a decline in the willingness of capitalists to invest due to a rise in uncertainty, plus irregularities operating in the sphere of finance and credit which upset the circuit of productive capital.

Rudy Fichtenbaum (1998) and Hamid Azari-Rad (1996) have linked the circuit to the turnover of capitals, effective demand, and rate of profit. Marx's circuit is part of the origins of the "circuit approach" to political economy (see Graziani 1997). O'Hara (2000, 2003, 2004) has extended the circuit to family relations, community, culture plus the global economy via a more complex "systemic circuit of social capital." John Henry (2002) has been a forceful advocate of extending the circuit to the family and community. More recently, Deepankar Basu (2014) has applied the circuit to comparative growth dynamics. A very fertile literature demonstrates the major significance of the circuit of social capital.

Principles of income generation and endogenous crises and cycles

The circuit impacts on income, crises, and cycles, as do all the contradictions mentioned earlier. The main production and income categories and concepts link to Marx's two-sector model of capital and consumer goods, with income being divided between wages and surplus, and the surplus being disaggregated into profit (for industrial capitalists), interest (money capitalists), and rent (landed property); as well as the surplus potentially being distributed to wages, state revenue, etc. Marx then devised formulae for the rate of surplus value, organic composition of capital, aggregate product, income distribution, and the rate of profit, as shown below (see Bronfenbrenner 1968; Mandel 1968, chs. 10–11, for more details):

Marx's model of aggregate product, income, and rate of profit

1 Two-sector model:
$v1+c1+s1$ (capital goods sector); (variable [v] + constant [k] capitals + surplus value [s])
$v2+c2+s2$ (consumer goods sector)
$\Sigma V+\Sigma C+\Sigma S$

2 $\Sigma V+\Sigma C+\Sigma S$ = aggregate product (ΣP) = aggregate variable (V) and constant (C) capitals plus surplus value (S)

3 $\Sigma Y = V + S$ = total income = wages and surplus

4 $\acute{\varepsilon} = S/V$ = ratio of surplus value or exploitation (for the whole system)

5 $\mathrm{K} = C/(C+V)$ = organic composition of capital (for the whole system)

6a $\pi = S/(C+V)$ = rate of profit (ROP)

6b $\pi = sn/(C+V)$; n = number of turnovers of capital (average micro surplus value [s])

6c $\pi = \dfrac{Sp}{[C+V]pr+[C+W+S]u}$ = ROP adjusted for productive (pr) and unproductive (u) activities;
Sp = surplus utilized for productive activities;
$(C+V)pr$ = cost of production for productive activities;
$[C+W+S]u$ = surplus diverted to unproductive activities; W = wages of u.

7 $S = \rho + \hat{\imath} + r$ = distribution of surplus value between profit (ρ), interest ($\hat{\imath}$), and rent (r).

Marx was able to develop the first fully formed analysis of (domestic, regional, global) income and production accounting. In his system, gross income (ΣY) comprises wages (W; or V, v) and surplus value (S, s); with surplus being decomposed into profit (ρ), interest ($\hat{\imath}$), and rent (r); and also often wages or salaries; and state income. Aggregate production (ΣP) comprises the two sectors of consumer and capital goods production, including total constant and variable capitals plus surplus value. Adjusting for depreciation we obtain net income. The organic composition of capital (K) identifies the proportion of depreciation (or total stock of fixed capital) and circulating capital (materials) in total capitals (constant and variable). From these simple identities Marx was able to develop models of no-growth and growth economies with his analysis of simple and extended reproduction (see Howard and King 1985); which led later to the development of input-output analysis by Lenin and Leontief (see Lenin [1893] 1976; Clark 1984). Marx carefully scrutinized the determinants of the rate of profit, including a general determination of profit rate (π), plus rates of turnover (n); also decomposing into productive (pr) and unproductive activities (u) (see Moseley 1991; Wolff 1989). The models have also been extended to deal with the state and world economy. From these and other foundations Marx was able to develop a simple analysis of the trade cycle.

A *core principle of Marx's is that crises, recessions, and cycles are endogenous to capitalism*; they are engrained in the fabric of its motion as a system; a point emphasized by Howard Sherman (e.g., 1991), among several others. In *Capital* Marx explained periodic decreases in the rate of profit by (especially) decreasing rates of exploitation, rising organic compositions of capital, increasing unproductive spending, and declining turnovers of capital. But he also included counter-tendencies (which increase profit rates) through speeding up the production system, lowering wages, cheapening constant capital, increasing reserve army of labor, greater foreign trade, and more share capital (Marx 1981). The precise determination of the rate of profit thus depends upon the numerous factors and complex processes involved.

Many Marxists and non-Marxists have understood the "falling rate of profit tendency" as a long-term or secular movement of capitalism, and sought to defend or refute this tendency (see Howard and King 1992, ch. 7 for details). But drawing inspiration from the *Grundrisse*, Michael Lebowitz (2009, ch. 7) understands this motion of capital as one of *successive* bouts of "Growth-Barrier-Growth," as the expansion, contradictory decline and subsequent renewal occurs through long historical time in a cyclical, and/or wave (or more complex) pattern, with no end-in-view. Marx's analysis of short cycles is helpful for understanding the successive booms and recessions of capitalism during (especially recent) decades of capitalist evolution. Many scholars have detailed the form of these cycles based on Marx's analysis and subsequent research, including (among others) the "capital" model of Kōzō Uno ([1964] 1980), the formal endogenous model of Robert Eagly (1972), the "simple trade cycle" model of P. N. Junankar (1982), and the "nutcracker" model of Howard Sherman (1991, 2009).

Here we employ a very simple "Marx approach" to the trade cycle, updated to include the major variables. These are typical 8–11-year Juglar cycles; e.g., as manifested in the recessions of 1974–1975, 1982–1983, 1991–1992, 2001 and 2009–2012, especially in many Core nations (where the depth/amplitude of these Juglars are influenced by long wave dynamics and interlinked with the shorter "Kitchin cycles"; see Schumpeter 1939). First, the "proximate cause" of the Juglar cycle upswing is normally an expansion of demand, for instance, some combination of greater investment and/or enhanced consumption, along with possibly stimulatory government spending or higher net exports. Generally this means a more favorable economic climate and optimism about the future. In modern parlance, this has its effects through a combined multiplier/accelerator expansion of capital and consumer goods sectors. As general accumulation increases this stimulates innovation, and the credit system provides another loop into the equation as upswing moves into boom. During this period both the real and financial sectors expand, but as the boom heightens contradictions manifest more openly.

Endogenous factors limit the upper turning point, generating downswing, all being linked to markets getting overextended as the upswing generates contradictory bottlenecks and asset price instabilities. This includes some combination of higher interest rates, raw material prices, and/or wages; greater depreciation of capital caused by heightened competition and innovation; along with financial crises and speculative bubble collapses of the equity and/or real estate markets. Optimism then turns to pessimism, leading to lower rates of profit and eventually declining rates of investment and consumer spending, and through the multiplier/accelerator effects reduced rates of growth of income and asset prices. Recession and often depression emerge from these contradictions which destabilize (further) the markets for labor power (greater reserve army of labor), money-credit, real estate, equity, plus consumer and producer goods.

The floor of the cycle depends upon such factors as levels of uncertainty, the extent that depreciating capital goods requires further spending, plus government and external demand. Labor power, money and property markets usually experience slackened demand that can reduce real wages, interest rates and rents; which may enhance prospective profit (while lower interest rates and rents may enhance consumer demand). Government can moderate recession or depression through automatic and discretionary stabilizers, lender-of-last-resort facilities, and depository insurance schemes; but the state cannot prevent cycles under capitalism (although it often exacerbates them). When these anti-cyclical factors come into play recovery often emerges, which increases the rate of profit, accumulation, and income.

The Great International Crises (GIC) of 2008–14 (which are still ongoing in some nations and regions, especially Europe) can be seen through the lens of the downward phase of this model, with contradictions linking to the circuit of social capital (and long wave downswings): $M \leftrightarrow C[LP, MOP] \ldots P \ldots C + c \leftrightarrow M + m\ [\rho] \to M$. Money is endogenously generated by interactive links between public and private networks; and during the crises of 2008–2014 its circulation generally declined, in direct proportion to the sophisticated networks of finance in the respective regions (especially in the "Core" advanced nations of the United States and Europe). The purchase of commodities, including labor power and means of production, occurs at multiple sites and through several runs of time: and during the Great Crises it led to inadequate purchase and varying degrees of unemployment between areas. The resulting production of commodities and surplus product, the exchange of money for commodities, and the realization of surplus value were adversely affected in the Great Crises by the slowdown in purchase of labor power and means of production, especially in the aging industrial nations and areas. Industrial profit, especially in the Core, was adversely affected by rising shares allocated to fictitious capitals (shadow banking system, securitization, equities) and higher rents from speculative real estate interests. Overall, then, the turnover of capital, and the desire of capitalists to invest, underwent declining propensity during the GIC, especially in the regions adversely affected by creative destruction (see Harvey 2013).

This endogenous view of cycles and instability is a major innovation in political economy, leading to further advances, such as those discussed above, plus the work of Veblen and Hyman Minsky (John Henry 2010 shows strong links between Marx, Veblen, and Minsky); the SSA theory of David Gordon (1998) and others; the Regulation school theory of Michel Aglietta ([1976] 1979), Robert Boyer and others; plus the general Marxian cycle/crisis analysis of a multitude of scholars. Marx's endogenous theory of cycles and instability is thus of great contemporary relevance; see, additionally, a recent issue of the *International Journal of Political Economy* (Fall 2011) where several papers link Marx's analysis of crises to the Great Crises.

Principles of socialism and communism

John Henry (2002) is right when he says that, while Marx studied capitalism in detail, ultimately his concern was for the development of socialism and communism throughout the world, even if he wrote little about the nature of socialism and communism per se. Marx mistakenly thought that the inner contradictions of capitalism would endogenously stimulate institutions and social movements that would *inevitably* lead to a more progressive system; yet he recognized that historico-institutional variations would lead to different styles of socialism and communism throughout the world, so drawing up detailed general theories and programs may be premature (O'Hara 2000, ch. 3).

Marx thought that the best strategy for communism was to start with the workers taking power of the commanding heights of polity, economy, and society, through some combination of revolutionary and parliamentary means. Then by putting into practice a transitional program, such as that discussed in the *Communist Manifesto* of 1848, state-directed socialism could evolve toward communism as the state withers away and the hegemony of collective processes influence habits and institutions. Yet by 1872 Marx and Engels recognized that, while the general principles are correct, some elements of the *Manifesto* "in practice are antiquated," and added, "But then, the Manifesto has become a historical document, which we have no longer any right to alter" (Marx and Engels 1872, 54). So too in the light of the past 150 years of socialist and communist scholarship, these preliminary documents by Marx and Engels require modification; for Marx's main insight is that communism is *the critique of capitalism* along with the recognition that the precise institutional setup of alternative systems *depend crucially on historical, socioeconomic, and politico-cultural conditions.*

Thus, in the contemporary environment, we should see socialism and communism as comprising a decentered, institutionally complex, multi-layered, and historically contingent set of processes, principles, and practices. It is in this spirit that I present the following five principles of "Marxian communism"; although the strategies to generate the institutions discussed may vary from place to place and time to time, they draw on Marx but also take into account the perspectives of Mensheviks, left-Communists, libertarian Marxists, the New Left, and recent research in political economy (inspired especially by journals, e.g., *Review of Radical Political Economics*, *Capital and Class*, *Rethinking Marxism*, and *Politics and Society*). In modern parlance, this "system" is called *embedded communitarian liberalism* (O'Hara 2013), being a series of complex processes or a mixture of institutions, habits, and relationships.

First, the essence of Marx's view of communism is that those who produce the surplus also contribute to the decision-making process of how the surplus is produced, distributed, and reproduced. Communism as a system of direct democracy requires that the dominant institutions operate so as to include producers in decision-making processes. This could include, for instance, systems of worker cooperatives, where the owners of the business also reap the rewards of generating production, distribution, and exchange. But it also goes beyond the system of wage labor to the household and other institutions. In communist households, the producers are actively engaged in decisions about the household surplus, and how it is organized, so that others may become productive once they are inculcated into the process of communication, education, and sociality (see Fraad *et al.* 1994). The direct producers in all institutions should contribute to decisions about what to do with the surplus; whether to reinvest it in direct production of use-values, and/or utilize it for public goods such as worker education and health, and/or allocating it for wider community benefit.

Second, the direct workers should not have complete control over the surplus, as it becomes a "general fund for social change" (Stanfield 1992), since the surplus is not only contributed to by direct producers, but also through the collective social wealth of the community. Marx recognized how the surplus is affected by conditions in production, but also the state of demand, the circuit as a whole, the stock of knowledge, "natural" assets/resources, and so on; while Veblen ([1899] 1979, [1917] 1964) rightly emphasized the importance of institutions, habits, knowledge, technology, and organizations in the generation of welfare, product, and the surplus. Some methods of redistributing the surplus to allow for these more general systemic influences would be to allow the workers to influence the distribution of the surplus to wider community benefit (as mentioned above); likewise they could be "taxed" by "the community" the equivalent of the proportion of the surplus generated by these collective factors (if it is possible to calculate this) and these receipts could be specifically earmarked for the public goods of education, health, infrastructure, ecology, cooperative schemes, and so on.

The third aspect of Marxian communism is that major negative externalities need to be internalized into the direct decision-making bodies. Corporations such as worker cooperatives (e.g., see Ellerman 1990; Prychitko and Vanek 1996) are structured under communism so as to internalize things such as pollution, poverty, health and safety, worker education and community development into their decision-making structures as much as possible. They are institutionalized into the companies' articles of association; the mentality of the workers; and the members of the board of directors. The board is elected by the direct producers, but includes members of the wider community in decision-making. A critical aspect of Marxian communism is, therefore, for productive organizations to reduce negative elements of theirs and the community's pollution, crime, and poverty while producing positive externalities through trust, information, and communicative networks.

A fourth element of Marxian communism concerns the organizational structure and operational dynamics of governance processes. Not all of the externalities can be dealt with by the direct producers or corporations, and there are other public goods that require more general concerns. Global, regional, national, and local levels of governance are required to deal with questions that link to their respective activities. Global governance is concerned with international peace, global financial stability, climate change, trade, uneven development, and migration between regions. National governance has a role to play in areas of defense (rather than offense), migration, health, education, counter-cyclical measures, climate change, and infrastructure projects. State governance institutions may be given the task of operationalizing health, education, police, and infrastructure at various subnational levels. Local governance deals directly with questions of community governance, maintenance of roads and footpaths, waste disposal, recycling, local crime, etc. In this context, democratic and flexible planning—general, macroeconomic, strategic, and detailed—should be a core part of these operational dynamics (see Cockshot and Cottrell 1993).

Governance institutions can be both directly and indirectly productive of social welfare. Workers and the whole community need to be included in determining policy and governance to reduce alienation, exploitation, and oppression. This is crucial to reducing bureaucratic insensitivity, as Ernest Mandel (1992) and others have argued. Governance institutions should lead the process of social coordination by enhancing humanistic values of social welfare, communitarian justice, and communication. The community needs to feel that governance is a real part of their sociality and humanity, and that they are able to solve critical social problems through creative means and processes.

The fifth element of Marxian communism is broader than the others. It is not just about the production, distribution, and reproduction of basic use-values such as food, clothing, shelter, and improvements in governance; although these are important. It also encompasses quality of life issues, ecological diversity, and cultural heterogeneity through the positive welfare effects of social interaction. Marxian communism seeks to rebuild community through networks of communication, knowledge, innovation, trust between human agents, and the recreation of civil society. This includes revitalization of people's lives, eschewing alienation, exploitation and oppression, the enhancement of emotional intelligence, and the reengagement of people with each other and the ecological environment in local and wider issues of social intercourse. This requires the building of trust to high levels at every major level of social life, including non-government organizations and civil society groups. In place of the private profit motive, Marxian communism seeks to promote use-values, innovation, knowledge, quality of life, human interaction, and sustainability on planet Earth. Such a concern needs to be built into the fabric of the institutions and the habits of peoples' everyday actions as they eke out their existence through long historical time.

Conclusion

The purpose of this chapter is to present a summary view of core areas where Marx's political economy is relevant to contemporary problems and conditions, as a way of celebrating the work of John Henry in heterodox political economy. We started with Marx's Book Plans and concluded that these should likely be reorganized into a 5-Book Plan in the light of recent expansions of globalization, the need to include institutional and evolutionary processes in the plans, as well as detailed work on alternative systems to neoliberal capitalism. The principle of evolution then demonstrated that the notions of historical and systemic change is a critical starting point for examining the metamorphosis and emergence of contradictions within phases of social systems, including capitalism. Non-deterministic phases of evolution are useful tools for scrutinizing the changes that occur within capitalism through historical time, including the long booms and slumps that are characteristic of its motion.

The principle of holism was then introduced, paying special attention to interdependencies between economic, social, political, and cultural relationships—as well as the linkages between production, distribution, exchange, and reproduction—within institutions through social structures of accumulation, overdetermination, and multiple causality. Marx's holistic and dialectical models are better tools for understanding the complicated structure and dynamics of capitalist economies than the deterministic base-superstructure model (which Marx modified or qualified in his detailed studies).

Without Marx's principle of contradiction it would be very difficult to comprehend the antinomies and complex relationships between use values and exchange values; labor and capital; competition and monopoly; industry and finance; center and periphery, etc. These contradictions "move around" so that the contradictions within production may be temporarily resolved through expansions of the sphere of circulation. The contradictions introduced in this temporary resolution, through various forms of unproductive credit, globalization, state spending, and wage increases, tend to manifest themselves eventually as speculative bubble crashes, capital moving out of core nations, fiscal crises of the state, and declining profit shares. Further temporary resolutions to stem these contradictory forces then tend to influence institutions and habits through their own dynamic motion.

The circuit of social capital is a core innovation of Marx's, where dynamic linkages between buying, producing, selling, investing, and reproducing were modeled. This dynamic way of looking at capital enables us to formalize the interaction between exchange, exploitation, production, aggregate demand, turnover, costs of production, the availability of credit, and the propensity of capitalists to invest. The circuit has also enabled us to link capital with other sub-systems such as the household, the financial system, state, ecosocial environment, and world economy; plus it helps explain crises and cycles.

Marx also presented the outlines of a theory of income, production, unstable growth, and cycles of capitalism. The principle of endogenous cycles and instability helps in comprehending periodic business cycles and crises. The conflict between capital and labor impacts on profit and investment; while the conflict between industry and finance stimulates speculative bubbles and unproductive flows of capital; and the conflict between competition and monopoly is intimately connected to rising and declining profits over the cycle. The state cannot prevent cycles and crises but it can reduce the potential for depression and the negative consequences of crashes and instabilities. These innovations have enabled many researchers and some policy-makers to understand major instabilities of capitalism, including the factors involved in the Great International Crises of 2008–2014.

Marx is also important in helping us comprehend the sources of exploitation, alienation, and oppression. The general notion of class and surplus is relevant to the creation of a new system, called socialism or communism. We outlined five processes collectively important for future such systems. The first is the notion that those who produce and distribute the surplus should be actively involved in decisions about its production, distribution, and exchange. The second is that the surplus is also a "fund for social change" as systemic factors influence the production and reproduction of the surplus, leading to the need for major investments into knowledge-generation, health, infrastructure, environmental sustainability, and cooperative social ventures. The third is that institutions of production, distribution, and exchange need to internalize core externalities into its decision-making processes to stimulate a cooperative and socially spirited system. The fourth is that governance under socialism needs to eschew extreme bureaucracy by generating practical ways of communicating with and including citizens in decision-making and promoting humane institutions. And lastly, such a communitarian system should be based on relations of trust, sociality, and cooperation between individuals in the wider institutional and ecological setting in the interests of the common good.

Acknowledgments

This is an updated and condensed version of a paper initially presented at the 2006 History of Economic Thought Society of Australia (HETSA) conference, July, Ballarat, Victoria, Australia. Thanks go for comments by those participating at the conference, and also the referees, plus comments and assistance from Tae-Hee Jo.

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4 Veblen, instinct and exchange

William Waller

Introduction

The primary purpose of this chapter is to think about exchange. The argument of the chapter proceeds as follows. John Henry's view on the universalization of economic concepts and exchange are discussed. We need to consider some warnings expressed by John Henry concerning how economics has and should not universalize modern economics' conceptual apparatus for understanding market exchange to all occurrences of trade in market and primitive societies because such universalization can be at least misleading (Henry 1983–1984, 1986; Bell and Henry 2001). Henry has argued that modern "theory [has] separated the examination of those exchange relations from their social moorings" (Henry 2008, 222). The topic of the source of exchange is then addressed by examining the universalized account of Adam Smith and the cultural account of Karl Polanyi of the origins of motivations for exchange. The method here employed is to consider what these earlier economists have said about the origin of exchange behavior and try to discern whether there is a theory of the motivation for exchange explicitly or implicitly embedded in those discussions. Polanyi's introduction of status as a motive for exchange leads to a consideration of Thorstein Veblen's use of status as a motivation for emulative activity in *The Theory of the Leisure Class* ([1899] 1934). Veblen's use of instincts as the motive for behavior and the origin of institutions (in light of recent arguments by Tony Lawson) are discussed. In particular, the concern is whether it is plausible, given the current understandings of psychology, to consider whether there is an instinctual foundation to exchange behavior. This leads to a discussion of the contemporary use of instincts in evolutionary psychology (in particular instincts that are activated in exchange). The possibility of using evolutionary psychology's understanding of instincts as a way of rehabilitating Veblen's use of instincts as a motive for behavior leading the formation of institutions is discussed including the possibility of building a "Veblenian" theory of exchange.

John Henry on universalization of economic concepts and exchange

John Henry warns of a tendency in economics to apply current conceptualizations to past practices: "neoclassical economics takes various social institutions as given—private property, exchange, and so on—develops general theories with such institutions assumed, and then argues that such theories govern the whole of historically evolved society" (Henry 1986, 381). This leads

> any examination of early society [to be] conducted on the basis of ideas formed in present society, and the main tendency is to read the present into the past, attempting to discover behavior and institutions that are compatible with those of current practice.
>
> (Bell and Henry 2001, 206)

Henry (and Stephanie Bell) argues that this is a distortion of the past. This leads to the fallacy of treating current conceptualizations, like exchange, as universal. The consequence of this fallacy is:

> we assign terms, representing specific conceptual understandings, to practices and behaviors, to which these concepts simply do not apply. Standard theory, applicable only in the context of these conceptual notions, can then be applied to all history, seemingly illuminating practices that would at first glance appear outside the pale of conventional argument.
>
> (Bell and Henry 2001, 207)

With respect to exchange they note the following tendency: "Thus, in capitalist society, all trade is exchange, and as modern economies are exchange economies, then all societies that exhibit trade must also exhibit exchange." They warn that:

> When these ideas become universal, they are then used to interpret all history from the perspective contained in the ideas themselves—a perspective shaped by the existing society. So, as current society establishes the universal standard, and that standard is used to evaluate the past, then history is viewed and written within a context established by the present.
>
> (Bell and Henry 2001, 208–209)

They focus on this universalization of market exchange as used to evaluate all trade of goods in primitive societies where in fact, as they argue (following Polanyi and others), all the supporting institutions that make up capitalist societies are missing. Thus trade is mischaracterized as market exchange presumably motivated by self-interest and the desire for gain, when instead it is governed by norms of hospitality—"a universal social relationship among early societies" (Bell and Henry 2001, 210).

They summarize the differences between market exchange and primitive trading activities.

> Exchange requires several conditions to be satisfied. Goods must be privately owned … these goods must be marketed—they must be institutionally organized to allow sale and purchase; some form of gain must be expected in the transaction; a principle of equal quantitative reciprocity must be established.
>
> (Bell and Henry 2001, 214)

But they argue: "As we are accustomed to seeing trade *as* exchange, we then tend to see *all* trade as exchange. For tribal economies, however, trade extended the rule of hospitality across tribal lines" (215, original emphasis).

In this chapter I reject the notion of the universality of market exchange and applying our conceptualizations of market exchange to all human behavior, but we will explore the possibility of an instinctual foundation to both market and non-market exchange behavior.

Exchange in neoclassical economics and its Smithian origins

While avoiding the tendency to universalization typical of both classical and neoclassical thought, it is productive to explore the origins of the theory of exchange. The neoclassical explanation for the motivation of exchange is notorious for its tautological character. Individuals engage in exchange to maximize their utility. Indeed, the presence of all the institutions of an exchange economy is presumed in the motivation for exchange itself. Individuals are motivated to exchange because they live in an economy where exchange is necessary for acquiring the means of life. This tells us precious little about why people would begin exchanging in the first place.

The neoclassical economist can presumably fall back on the explanation for the motivation for exchange in classical economics since it claims an essential continuity from classical to neoclassical thought (except for some pesky matters like the labor theory of value). But classical theorists, especially Adam Smith and Karl Marx, thought a great deal about exchange and the motivation of humans to engage in exchange. The wealth of nations to make a not too subtle point was dependent on specialization and the division of labor. The industrial system led to incredible increases in productivity but required laborers in specialized employments to purchase the means of life since their own production was no longer of a self-sufficient, self-supporting variety. But again this puts the cart before the horse. An economy with specialized employment and a division of labor would had to have been preceded by the existence of widespread exchange.

Smith is almost unique because he spoke of exchange and its origins directly and separately. Like Smith, Marx (following Ricardo) discussed exchange as but a part, an expression, of more complex social relations. Production, distribution, exchange and consumption were a unified process. Interestingly exchange was not considered particularly important for Marx who referred to it as “a formal social movement” that stands between production/distribution and consumption (Marx 1973, 89). These classical economists (Smith, Ricardo, and Marx) all thought of exchange as the exchange of equivalents in the sense that no value is created (instead it is realized—see Marx 1967, 85) by the act of exchange. Exchange was motivated by the desire to acquire use-value equivalent to the use-value being offered as payment. In Marx’s terms “the commodities which they exchange are, as exchange values, equivalent, or at least count as such” (241). Given that all three of these economists accepted a labor theory of value the equivalence was in the value of the labor embodied by the commodities exchanged. Of course one of the commodities was likely to be money.

As mentioned earlier the division of labor necessitates that individuals exchange goods. The introduction of money and wage labor insured that all exchanges were of equivalent exchange value. The creation of value was in the production process. Even Ricardo’s gains from trade as a result of comparative advantage was expressed as a difference in production costs and as such did not imply value created by exchange itself. In contrast, in Mill’s discussion of concepts of value we see both the flirtation with the concept of utility (Mill 1885, 286–287) and the general focus on market supply and demand as determiner of exchange values (296) that suggested an explicit difference in value between buyer and seller that created the possibility for an increase in value (presumably for both parties) as a result of exchange. Value was exchange value for Mill (286). Supply included consideration of both scarcity and cost of production. But for Mill and his contemporaries the connection between production and exchange and thus distribution was certainly more tenuous than Smith, Ricardo, and Marx.

Returning to *The Wealth of Nations*, the problem of the origin of exchange was one of the first matters Adam Smith approached. And he approached it in a fine tradition followed by most subsequent economists. He assumed it away. In Chapter II, while discussing the origin of the division of labor, he writes:

> This division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion. It is the

> necessary, though very slow and gradual, consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter and exchange one thing for another.
>
> (Smith 1937, 13)

Humans exchange because it is an inborn propensity, a part of human nature, to do so.[1] Edward Cannan in his classic edition of *The Wealth of Nations* highlights the oddness of such a propensity in his notes in this section of the text. As Smith observes, the propensity to exchange is unique to humans and that dogs do not have a propensity to exchange one bone for another (Smith 1937, 13), Cannan observes: “It is by no means clear what object there could be in exchanging one bone for another.” Why indeed would two creatures, dog or man, with a propensity to exchange, exchange identical objects? If exchange is a propensity of humans, a part of human nature, it might make sense to express this propensity in a manner that people would exchange whatever they had—even if they were identical objects. But of course that is not what Smith has in mind.

Smith attributes the particulars of exchange to self-interest. Again in an oft-cited passage Smith writes: “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interests” (1937, 14). But notice how quickly Smith moved from an innate human propensity to understanding exchange in the context of a fully developed economic system whose existence presumes it. We find ourselves back at the beginning, what motivates exchange?

Another view from Karl Polanyi

Karl Polanyi gives us some perspective in his discussion of how economies are instituted. Polanyi describes three ways in which economies are integrated—reciprocity, redistribution, and exchange. Exchange is always associated with markets, but not always with price-making markets or as a form of integration. Trade or exchange comes in three types according to Polanyi. He describes operational exchange—the mere locational movement of goods, a “changing of places” between hands; decisional exchange—the appropriational movement of goods at a set rate of exchange; and integrative exchange—the appropriational movement of goods at a bargained rate of exchange (Polanyi 1957, 254–255). All of this trade takes place in markets, but integrative exchange is what economists since Smith have been concerned with.

Polanyi differentiates these alternative forms of exchange with historical examples that emphasize that decisional exchange is about moving goods over distances and trading them. The point of the exchange is the acquisition of goods from a distance and not gains from the act of exchange itself. Played out by groups this form of trade is collective in character and individual motivations are not the issue. The trade centers on the meeting of different communities—though trade relationships between individuals can exist (Polanyi 1957, 258). Decisional exchange is essentially administered and run through government-controlled channels where exchanges take place at a predetermined rate. In this case the relationship between the individual traders is irrelevant (263). Integrative exchange is the familiar pattern of exchange in price-making markets where exchange relates the trading partners to one another. Polanyi notes that this leads to a system of markets that govern all aspects of the trading process "storage, transportation, risk, credit, payment etc.—through forming of special markets for freight, insurance, short-term credit, capital, warehouse space, banking facilities and so on" (263).

Polanyi examines the different motives of individuals engaging in exchange. He identifies two main motives for exchange behavior:

> Acquisition of goods from a distance may be practiced either from motives attaching to the trader's standing in society, and as a rule comprising elements of duty or public service (status motive); or it may be done for the sake of material gain accruing to him personally from the buying and selling transactions in hand (profit motive).
>
> (Polanyi 1957, 259)

He continues: "In spite of many possible combinations of those incentives, honor and duty on the one hand, profit on the other, stand out as sharply distinct primary motivations" (259). While Polanyi has presented us with two motivations for exchange it is his exploration of the histories of exchange that are important for understanding how modern market exchange, whatever the motivation, required a pre-existing system of markets in order to manifest itself. To put it more distinctly the emergence of integrative exchange as an economic system of price-making markets requires a pre-existing market infrastructure that was presumably built on a system of trading activity. This system was not dependent on individuals motivated by gain but by some systemic prior form of exchange of trade goods or ceremonial goods where individuals were motivated by status and systemic rewards other than accumulation of gains from the exchange process itself. As Polanyi put it elsewhere: "Exchange, as a form of integration, is dependent on the presence of a market system, an institutional pattern which, contrary to common assumptions, does not originate in random actions of exchange" (Polanyi 1977, 370).

Polanyi argues that self-interest as a motive for exchange evolves or emerges from a pre-existing system of exchange that is not motivated by such personal profit motivations. Those pre-existing systems of exchange might be motivated by what he classifies as status motives. But what are these pre-existing systems of exchange? Polanyi points to ceremonial gift exchange systems like those described by Bronislaw Malinowski or administered trade by permanent bodies like governments or government sanctioned trading companies. He is clear:

> The effective functioning of forms of integration depends upon the presence of definite institutional structures, and it has long been tempting for some to assume that such structures are the result of certain kinds of personal attitudes. Adam Smith's "propensity to truck, barter, and exchange" is perhaps the most famous example. It is not true, however, that individual acts and attitudes simply add up to create the institutional structures that support the forms of integration.
>
> (Polanyi 1977, 37)

He continues: "The supporting structure, their basic organization, and their validation spring from the societal sphere" (37).

Walter Neale describes historical examples of market places that do not constitute a system of price-making markets. Indeed he notes that self-regulating market systems are the exception rather than the rule, indeed almost unique until the nineteenth and twentieth centuries (Neale 1957, 369–371). He argues that most of human history consists of economic systems with fixed price markets, non-price-making market places and with economic systems best described using Polanyi's integrative categories of redistribution and reciprocity (371). This provides us with a way forward for considering the source of motivations for exchange beyond Smith's propensity propelled by self-interest.

Geoffrey Hodgson has made similar observations regarding the unsatisfactory character equating all "two way transfers of physical substances" to exchange in self-regulating markets and to the attribution of the motive exchange to utilitarian self-interest (Hodgson 1988, 148). He discusses market exchange as the exchange of goods accompanied by an exchange of property rights acknowledging the influence of John R. Commons' conceptualization of transactions. In his extended discussion of property rights and exchange he notes the continuing relevance of pre-market gift exchange and its associated norms (as in the work of Marcel Mauss) with elements of the labor contract (as described by George Akerloff) (165).

The discussion of exchange to this point has rejected the classical notion of exchange as a propensity driven by self-interest. We have drawn upon several institutional economists who reject this characterization. Polanyi gives us two motivations and his analysis suggests that the status motive for exchange may precede or at least be coincident with the self-interest motive for exchange. When looking at status as a motive for exchange, the institutionally inclined economist is quite naturally going to be drawn to Thorstein Veblen because of the centrality of status as a motive for consumption behavior in his classic *The Theory of the Leisure Class.*

Veblen and instincts

Thorstein Veblen's theorizing used instinct theory as the motivation for human behavior. Veblen argued that instincts provided the motive force for human behavior but the form in which that motive manifested itself in actual behavior was a function of culture and individual experience. Despite his prominent statements of skepticism about the concept of instinct itself there is no doubt that Veblen was serious about the importance of instinct. He considered his work on instinct his only important contribution to economic theory (Dorfman 1934, 324). As Geoffrey Hodgson notes, most of Veblen's followers quickly abandoned instinct psychology as a foundation for their work (Hodgson 2004, 269). In particular C. E. Ayres attacked instinct psychology directly (Ayres 1921a, 1921b).

Absent instinct Veblen's concept of foundation of order is suspect. Recently Tony Lawson, based on careful exegesis of Thorstein Veblen's classic article "The Limitations of Marginal Utility" (Veblen [1919] 1990c), an important work of Veblen as a mature theorist, has made a compelling argument that according to Veblen, institutions emerge from habits of thought, thus making Veblen's conception of the social order ideational (Lawson 2014). I think there are two responses that challenge this as the only grounding of Veblen's conception of the social order. First, Veblen, particularly in his discussion of the machine process in *The Theory of Business Enterprise* ([1904] 1978), argues that continual exposure to the machine process disciplines the intelligence of the workman (308–309) and creates, through habituation, new thinking in terms of mechanical efficiency (309) and this "discipline exercised by the mechanical occupations … is a discipline of the habits of thought" (313). In this case Veblen seems to be arguing that physical habits of conduct precede and create habits of thought, then habits of thought become institutions, thus the social is the result of material experiences of production. Second, Veblen's analysis in *The Theory of the Leisure Class* ([1899] 1934) and *The Vested Interest and the Common Man* ([1919] 1964) as well as other places makes use of some concept of a social class. The origins of these classes grows out of primitive formations of the division of labor and primitive exploitation and do not appear to be exclusively ideational but again emerge out of material conditions of life. Additionally I argue in this chapter (and elsewhere, Waller 2013) that behavior is motivated by biological instincts that through habituation creates the habits of thought that become institutions.

This suggests that in addition to habits of thought as mental constructs, the material circumstance of production creating habits of conduct, social classes and instincts all at some point in Veblen's analyses serve as a foundation for his conception of the social order. It is important to note that Veblen's thought may have evolved on this issue over time. Our purpose in this chapter is to explore the possibility of instincts as the foundation for behavior that becomes, through habituation, habits of thought, which is how Veblen defined institutions. This is consistent with Lawson's observation that "human nature (interpreted as instincts) is considered to be the source of consistency and stability in the later *Marginal Utility* essay" (Lawson 2014, 26, italics in original).

The approach taken in this chapter will be to take Veblen's theory of instincts seriously with an eye toward its rehabilitation. The reasons for this are two-fold. First, Veblen was a systematic thinker; his work is a conceptual whole. Instincts motivate behavior and people act. They reflect on that action and when the instinct is again triggered they repeat (possibly with modification) that behavior. Repetition leads to routines; routines lead to habituation which leads to habits of thought and habits of conduct which are, of course, institutions. Excising this instinctual foundation of human behavior from Veblen's economic theories renders them little more than descriptions of cultural curiosities and iconoclastic anecdotes. This may be one reason Veblen is so easily ignored by other social theorists. Second, instinct psychology has experienced an intellectual rebirth over the last thirty or so years with the emergence of evolutionary psychology. Evolutionary psychology has the potential to provide evidence in support of a robust theory of instincts to strengthen and reinforce the foundation of Veblen's theory of human behavior.

Veblen's theorizing began with locating the motive for human behavior in instincts. He wrote:

> The ends of life, then, the purposes to be achieved, are assigned by man's instinctive proclivities; but the ways and means of accomplishing those things which the instinctive proclivities so make worth while are a matter of intelligence. It is a distinctive mark of mankind that the working-out of the instinctive proclivities of the race is guided by intelligence to a degree not approached by the other animals. But the dependence of the race on its endowment of instincts is no less absolute for this intervention of intelligence; since it is only by the prompting of instinct that reflection and deliberation come to be so employed, and since instinct also governs the scope of it.
>
> (Veblen 1990a, 6)

Veblen identified a number of instincts that provided motivation for human behavior in his work. Veblen's first published discussion of instincts was in his 1898 article "The Instinct of Workmanship and the Irksomeness of Labor" where he argued that human behavior is partially guided and motivated by propensities. He wrote: "He acts under the guidance of propensities which have been imposed upon him by the process of selection to which he owes his differentiation from other species" (Veblen 1964, 85). Unlike other species, humans "appreciate the trend of their habits and propensities" (80). This means that they can reflect and adjust their behavior in light of their "appreciation" and thus these propensities or instincts manifest themselves not as tropisms or reflexes but as the result of conscious reflective consideration. It is in this context that Veblen introduced the instinct of workmanship where he considered the question whether human aversion to labor is a prior propensity or a derived behavior emerging from the instinct of workmanship. In this discussion Veblen argued that proclivities toward action and predation combine to create the habits and propensities that become the avoidance of labor and the instinct of workmanship. This is important because instincts in this case are propensities that derive from reason and habit formation working on inherited proclivities.

After identifying and exploring the implications of the motivating instinct on human behavior Veblen traced out the progression of this behavior to social/cultural constructions, namely institutions (as outlined above), which gave this behavior social structure, coordination, and most importantly social meaning and justification. This generally led to a system of social valuation that supported, maintained, and reified the behaviors originating in instinctually motivated behavior. Veblen's method of analysis of employing instincts was demonstrated in *The Theory of the Leisure Class*. Veblen reintroduced the instinct of workmanship in the introductory chapter ([1899] 1934, 15). Later he introduced a predatory instinct (29), an instinct of self-preservation (42, 110), propensities for emulation and predatory emulation (109–110, 270). Veblen added idle curiosity as an instinct in "The Place of Science in Modern Civilization" (1990b, 6–7). Finally, he added the parental bent as an instinct in *The Instinct of Workmanship and the State of the Industrial Arts* (1990a, 25–26). Veblen also introduced some additional instincts that play no role in his later work.[2]

In *The Theory of the Leisure Class* Veblen's central argument is that the motive for consumption behavior is pecuniary emulation. Pecuniary emulation has two components that for descriptive purposes we can call the social—the pecuniary modifier, and the instinctual—emulation. Pecuniary emulation results in conspicuous leisure and conspicuous consumption by the leisure class. But it also involves emulation which Veblen considered an instinct. To emulate means to copy or imitate for the purpose of equaling or surpassing others. As such it contains both a behavior and a motive. The motive to equal or surpass others can manifest in predatory ways, as in pecuniary emulation, and fits with Veblen's characterization of it as the "instinct of sportsmanship" (Veblen [1899] 1934, 270). The behavior of imitation or copying seems much simpler, meaning less layered by cultural accretion, suggesting it may originate at a more basic level of human behavior. The pecuniary modifier describes the particular type or thing being emulated for status purposes.

In the case of the leisure class its members imitate or emulate one another's conspicuous consumption and leisure to demonstrate to one another (and all who can observe them) that they belong in their lofty, privileged positions by virtue of their superior taste, judgment, and appreciation of all things associated with their purchasing power upon which these conspicuous acquisitions and behavior are dependent. It is their cultural refinement that allows them to fully appreciate and discern the essential superior qualities of their resulting activities and behaviors. Those at lower income levels must sustain equally differentiated pecuniary standards of leisure and consumption to maintain their relative position in an often highly differentiated, stratified, set of levels of status and privilege. These may approach the lofty levels of distinction and taste of the leisure class at higher levels of wealth and income and consist of relative, and even absolute, deprivation at lower levels of wealth and income, all socially sanctioned by a complete system of social valuation of beauty and merit accepted as authentic by all, with quality always measured by pecuniary standards and availability. This explains the pecuniary component of pecuniary emulation. The emulation component is primarily instinctual according to Veblen.

The existence of instincts was already controversial in Veblen's time. Veblen was aware of the criticism of the instinct concept[3] and very clear about his own ambivalence regarding the concept. But he rejected associationist psychology and never embraced the behavioral psychology that would distract later institutional economists for a century.[4] Indeed, the second paragraph on *The Instinct of Workmanship and the State of the Industrial Arts* acknowledges the fact that the term had become too imprecise to be of use to biologists and psychologists, but then Veblen makes his argument that this "time worn" designation is sufficient for the study of the evolution of institutions (Veblen 1990a, 1–3).

Evolutionary biology—instincts, adaptations

While instinct psychology fell out of favor during and after Veblen's use of the concept—leading to its abandonment and disuse for many years—in recent years (since the late 1980s) modern evolutionary psychologists have rehabilitated the concept of instincts, which they called adaptations.[5] The terms are used interchangeably.

Evolutionary psychology, evolutionary biology, ethology, and sociobiology have all contributed to our modern understanding of instincts or adaptations. Adaptations are evolved cognitive mechanisms that take in a narrow slice of information available in the ancestral environment that engages a process that elicits a specific response, a behavior. The behavior, to be an adaptation, must consist of the solution to some specific problem of survival or fitness to reproduce (or kin's ability to reproduce) successfully. Because such mechanism evolved over the life history of the species any adaptation must be a fitness response to something in our ancestral evolutionary environment (aka environment of evolutionary adaptiveness). These could be problems regularly encountered by ancestral hunting/gathering humans (employing cross-cultural analysis and life history data) or even by primates, mammals, etc. (comparing different species as a method).

The focus of evolutionary psychology has been on domain-specific adaptations rather than general-purpose adaptations. Specific problems have specific adaptive solutions. As such adaptations can be identified by their function. "Function provides a non-arbitrary way to understand component parts" (Buss 2011, 51). The brain has many functionally domain-specific mechanisms. Flexibility emerges from the multiplicity (specificity, complexity, and numerousness) of mechanisms rather than general-purpose computational (problem-solving) mechanisms (53). There are no "general adaptive problems" (51).

This approach can account for complex behavior and the application of intelligence and reasoning:

> As a result of selection acting on information–behavior relationships, the human brain is predicted to be densely packed with programs that caused intricate relationships between information and behavior, including functionally specialized learning systems, domain–specialized rules of inference, default preferences that are adjusted by experience, complex decision rules, concepts that organize our experience and databases of knowledge, and vast databases of acquired information stored in specialized memory systems—remembered episodes from our lives, encyclopedias of plant life and animal behavior, banks of information about other peoples proclivities and preferences, and so on. All of these programs and the databases they create can be called on in different combinations to elicit a dazzling variety of behavioral responses.
>
> (Tooby and Cosmides 2005, 14)

Adaptive mechanisms are not restricted to simple reflexive behaviors. These many mechanisms can consist of behaviors involving intelligence and reasoning and other domain-general mechanisms (that have been typically dualistically contrasted with instinctual behavior) that have evolved to solve non-recurring problems. With this complex of behaviors the emphasis is on the multiplicity of adaptations creating domain-general mechanisms rather than singular adaptive behaviors accounting for the capacity to learn and exercise reasoning and intelligence.

This means the capacity to learn is an adaptation built upon many prior adaptations including language acquisition and usage, memory, imagination. This proposition is explored in detail in Plotkin (1994).

Explaining and accounting for adaptations is difficult (Plotkin 1994, 109). Indeed, inherited behaviors can consist of adaptations, by-products, and noise. All are produced by chance variations. We identify adaptations by their function. Plotkin suggests the three following signs of adaptive fit (112–113) to assist in identifying adaptations:

1 Behavioral differences fit differences in the physical environment.
2 The attribute contributes to the overall efficiency with which an individual converts its resources into offspring.
3 The complexity of structure is too improbable to have occurred by chance.

Plotkin further argues that the following constitute evidence of evolutionary adaptive behavior (114):

1 There must have been variation.
2 Selection must have acted on better adapted behavioral forms.
3 Adaption must be propagated by some mechanism that may also give rise to further variation.

Buss elaborates on Plotkin's selection evidence by noting that explanations for adaptive behaviors require specific selection criteria—qualities that are part of the selection mechanism—to solve selection problems (Buss 2011, 52).

Tooby and Cosmides describe the central elements of evolutionary functional analysis. They summarize five structural components to such an analysis (1992, 73–74):

1 An adaptive target—that which constitutes a biologically successful outcome to a given situation.
2 Background recurrent conditions in the ancestral world relevant to the adaptive problem.
3 A design—recurrent features in the organism that comprise the adaptation.
4 A performance examination—the range of outcomes the adaptation produces.
5 A performance evaluation—how well the design produces the adaptive target, i.e., a successful biological outcome.

I have explored the relevance of evolutionary psychology for Veblen's theorizing elsewhere at length (Waller 2013). It is specifically to what this approach can tell us about exchange that I now turn. For this we briefly return to Veblen's instinct of emulation. Recall that Polanyi identified two major motivations for exchange, namely self-interest and status motives. Emulation is definitionally a status motive as we saw earlier. As we shall see, contemporary evolutionary psychologists (many of whom would see both self-interest and status motives as adaptations) focus on exchange as emerging from status adaptations. Building on their insights and Veblen's method we can posit a Veblenian theory of exchange consistent with his theory of consumption in particular and his overall theorizing in general.

Exchange behavior and evolutionary psychology

In their comprehensive review of the evidence for treating social exchange behavior as resulting from instinct or adaptations Cosmides and Tooby (2005) define social exchange as "interactions in which one party provides a benefit to the other conditional on the recipient's providing a benefit in return" (584). They continue:

> Among humans, social exchange can be implicit or explicit, simultaneous or sequential, immediate or deferred, and may involve alternating actions by the two parties or follow more complex structures. In all these cases, however, it is a way people cooperate for mutual benefit. Explicitly agreed-to forms of social exchange are the focus of study in economics (and are known as exchange or trade), while biologists and anthropologists focus more on implicit, deferred cases of exchange, often called *reciprocal altruism*, *reciprocity*, or *reciprocation*.
>
> (584–585, original emphasis)

They argue that social exchange as a phenomenon is both pan-human and ancient. This means that it has had sufficient time to evolve. Indeed, the authors note that social exchange goes back to early hominids and even chimpanzees so it has had plenty of time "for selection [to] have engineered complex cognitive mechanisms specialized for engaging in it" (Cosmides and Tooby 2005, 588). Therefore they "have been investigating the hypothesis that the enduring presence of social exchange interactions among our ancestors has selected for cognitive mechanisms that are specialized for reasoning about social exchange" (585). They conclude that "social exchange interactions are an important and recurrent human activity with sufficient time depth to have selected for specialized neural adaptations" (587). They note:

> The complex pattern of functional and neural dissociations that we discovered … reveal so close a fit between adaptive problem and computational solution that a neurocognitive specialization for reasoning about social exchange is implicated, including a subroutine for cheater detection. This subroutine develops precociously (by ages 3 to 4) and appears cross-culturally.
>
> (587)

They argue that a domain-specific adaptation or instinct is a better explanation for social exchange behavior than domain-general reasoning mechanisms.

> The detailed patterns of human reasoning performance elicited by situations involving social exchange correspond to the evolutionarily derived predictions of a specialized logic or grammar of social exchange and falsify content-independent, general purpose reasoning mechanisms as a plausible explanation for reasoning in this domain. A developmental process that is itself specialized for social exchange appears to be responsible for building the neurocognitive specialization found in adults: As we show, the design, ontogenetic timetable, and cross-cultural distribution of social exchange are not consistent with any known domain-general learning process. Taken together, the data show design specificity, precocious development, cross-cultural universality, and neural dissociability implicate the existence of an evolved, species-typical neurocomputational specialization.
>
> (Cosmides and Tooby 2005, 587)

In describing a cognitive instinct for social exchange they list its necessary characteristics:

> It is complexly organized for solving a well-defined adaptive problem our ancestors faced in the past, it reliably develops in all normal humans, it develops without any conscious effort and in the absence of explicit instruction, it is applied without any conscious awareness of its underlying logic and it is functionally and neutrally distinct from more general abilities to process information or behavior intelligently.
>
> (Cosmides and Tooby 2005, 587)

The authors differentiate between immediate trade with strangers and ongoing relations over time with members of the same group. But they note that they share the same basic reciprocal structure.

> [Social exchange] is found in every documented culture past and present and is a feature of virtually every human life within each culture taking on a multiplicity of elaborate forms, such as returning favors, sharing food, reciprocal gift giving, explicit trade, and extending acts of help with the implicit expectation that they will be reciprocated.
>
> (Cosmides and Tooby 2005, 588)

The authors pursue the argument that social exchange behaviors are not the result of general designs but, instead, they look for evidence of special design specific to social exchange (Cosmides and Tooby 2005, 589). In making this argument they contrast their approach with the general rationality hypotheses which they characterize as plausible but hopelessly vague (590). Instead they use evolutionary game theory to make their argument that for reciprocal social exchange to become an evolutionary stable strategy participants must have some mechanism for cheater detection. They use this to define a design problem—what mechanism would allow for cheater detection—and use an engineering task analysis to determine what might serve as a good design for this problem (592).

They note that a general-purpose learning ability would improve with experience and familiarity. Specialized evolved systems for social exchange would operate no matter how unfamiliar the interaction may be as long as it could be mapped onto the abstract structure of social exchange as a social contract (Cosmides and Tooby 2005, 593). To prove their point regarding the domain-specific character of cheating detection they argue that cheating implies the violation of a particular kind of conditional rule. The rule takes the form of a social contract. The cheating specifically refers to a violation of reciprocity where an individual intentionally took a gift or benefits without satisfying the reciprocal requirement (594).

While Cosmides and Tooby's agenda is to promote the evolutionary psychological position on specific neurocognitive adaptations they find social exchange worthy of study because:

> Exchange is central to all human economic activity. If exchange in our species is made possible by evolved, neuro-computational programs specialized for exchange itself, this is surely worth knowing. Such evolved programs would constitute the foundation of economic behavior, and their specific properties would organize exchange interactions in all human societies.
>
> (Cosmides and Tooby 2005, 585)

To make their argument that the rationality hypothesis is inadequate, they note that arguing that people exchange because it is mutually advantageous

> would be a good point if economists had a theory of the computations that [gave] rise to economic learning and decision making. But they do not. Having no account of how economic reasoning is accomplished, economists rely on rational choice theory, an *as if* approach. According to rational choice theory, people reason *as if* they were equipped with neurocognitive mechanisms that compute (in some unspecified way) the subjective expected utility of alternative actions, and choose the one that maximizes personal utility.
>
> (Cosmides and Tooby 2005, 618, original emphasis)

They observe:

> There is now a large body of results from experimental economics showing that people rarely behave as rational choice theory predicts and that this is not due to inexperience with the experimental situation—even experienced subjects violate rational choice theory predictions.
>
> (Cosmides and Tooby 2005, 618)

They continue their criticism:

> *Rational or economically advantageous* has to refer to some kind of reasoning process if it is to serve as an explanation of anything, and the most completely axiomatized normative model of rational economic behavior fails to predict or explain the facts of when humans choose to cooperate and punish, either in social exchange or public goods games.
>
> (Cosmides and Tooby 2005, 618, original emphasis)

They conclude:

> The simplest, most parsimonious explanation that can account for all the results—developmental, neuropsychological, cognitive, and behavioral—is that the human brain contains a neurocognitive adaptation designed for reasoning about social exchange. Because the developmental process that builds it is specialized for doing so, this neurocognitive specialization for social exchange reliably develops across striking variations in cultural experience. It is one component of complex and universal human nature.
>
> (Cosmides and Tooby 2005, 623)

A Veblenian theory of exchange?

Most exchange behavior studied by economists and other social scientists takes place within an institutional matrix, a system of interconnected social structures, which gives that exchange purpose and meaning. People are born into fully functioning cultures all of which have well developed systems of exchange with multiple purposes—some exchanges are implicated in both provisioning processes and creating and maintaining social relationships. Some exchange processes connect people in different social groups; some connect people within a social group. It is these ongoing social functions or purposes that sustain these systems of exchange. And over time complex institutions are developed to facilitate and enhance these systems of exchange. But neither classical, neoclassical, nor institutional economics has satisfactory theories of the origin of those exchanges processes (see Waller 2007). Indeed, to some degree all three schools of thought assume the presence of the social institutions that facilitate existing social exchange. This makes any explanation of exchange rather circular: People exchange because they live in cultures with pre-existing exchange systems in place that are necessary to maintain that culture.

Evolutionary psychology offers a solution to the origin of social exchange behavior consistent with Veblen's methodology. Veblen located the motivation for human behavior in instincts, what evolutionary psychologists call adaptations. These instincts provided motives directed at particular goals or ends in view. How those goals are addressed, what specific behaviors emerge, could be a function of existing cultural patterns and structured by existing institutions or could be new and unique behaviors. In the case of an instinct or adaptation, whenever the stimulus or need reappeared, the motivation would be reactivated. However, after the initial activation and response, experience would then play a role in what behavior was deployed on subsequent occasions. Over time conventional learning, diffusion, and other cultural mechanisms of sharing experience might influence or alter the behavior motivated by the initial circumstance that triggered the instinct or adaptation in the first place. From this description of an instinctual basis for exchange becoming integrated through repetition and learning, Veblen's discussion of institutional evolution provides the next step in explaining the institutionalization and creation of social structures for addressing the ongoing requirement that caused the evolution of the adaptation in the first place.

An instinctual or adaptive motivation for social exchange provides a Veblenian starting point for theorizing the origin of social exchange. Multiple instincts lead human beings to exchange goods and apparently monitor the fairness of that exchange when exchange becomes necessary to meet ongoing needs. This behavior solves the particular need involved and is repeated when necessary in similar ways. The repeated success of this behavior leads to reflection on the success of exchange in that context and could lead to extending the behavior into other domains. This behavior becomes routine, repeated to the point of habituation. It becomes standard behavior no longer noteworthy and thus no longer in the purview of extended contemplation and reflection. It is a habit. This behavior by its very nature involves multiple individuals thus it is likely to become a shared habit of thought and habit of conduct among those engaged in the exchange whether it is bilateral or involves a system of related reciprocal exchanges. Such a habit of thought and habit of conduct is the very definition of a social institution for Veblen. Once such a habit of thought and conduct is institutionalized then the theory of institutional adjustment presented throughout the rest of Veblen's work can be used to trace and explain the many manifestations of exchange in their particular contexts.

Evolutionary psychologists and Veblen both see exchange as serving the purposes of fulfilling individual needs whether provisioning or establishing and maintaining social ties (and status relationships). So both are consistent with Polanyi's observations about the two general purposes of exchange relationships. Indeed the presence of such an instinct or adaptation would seem to facilitate, if not privilege, the use of social exchange mechanisms in social relations because of the neurocognitive abilities associated with their use, e.g., detecting cheating, rewarding cooperation.

Conclusion

This chapter contains a suggestive sketch of what direction theorizing about exchange from a Veblenian perspective might entail. Starting with an instinct of exchange would make exchange a part of all human behavior prior to and accounting for the incidents of exchange preceding the evolution of market structures. This would be consistent with Adam Smith's view but also support the observations of Polanyi and Neale that the institutions of exchange pre-existed the evolution of market exchange as an integrative system. This would eliminate the universalizing assumption typical of mainstream economic thinkers that market exchange exists or emerges in all human societies past and present, thus avoiding the trap of universalization of economic concepts posed by Henry (and Bell).

The re-incorporation of instincts (or adaptations) into Veblen's theory of human behavior demonstrates that Veblen's methodology was not ill-considered. The problem for Veblen was that the state of the science of psychology of his time was simply not able to develop the neurological and experimental confirmation of the presence of instincts. Moreover, the ability of Veblen to build social theory on the basis of instincts—leading to behavior which is routinized then habituated, which in turn leads to the development of habits of thought, or as Veblen called such habits of thought, institutions—is a coherent theory of human behavior and social organization. The instinct component is not, as posited by Ayres and others, superfluous—meaning it is not discardable and replaceable without theoretical consequence. It does not leave Veblen with a theory of social order that is exclusively ideational.

It is important to note that locating elements of human behavior in instincts (or adaptations) does not lead inextricably to a theory of behavior that is devoid of cultural context and thus universal. In Veblen's theorizing behavior is motivated by instincts but that behavior is shaped and modified by the individual's reflection on the impact of the adaptive behavior in light of its cultural context and the conditions that triggered the instinctual behavioral response occurred.

Additionally, unsurprisingly Veblen's method of theorizing gains support as other forms of evolutionary theorizing like evolutionary psychology develop. This suggests and reinforces Veblen's argument that economics, like the natural sciences, needs to become evolutionary in character and eschew the taxonomic qualities of neoclassical economics.

Veblen's instinctual foundations of behavior, particularly the instincts of workmanship, emulation, predation, idle curiosity, and the parental bent, are crucial to his theorizing of human behavior. The instinctual response to stimuli initiates the behavior and the critical reflection that leads to its repetition, routinization, habituation, and transformation into institutions. From these institutions Veblen's theory of the evolution of institutions emerges. This provides a template for further institutional theorizing. This chapter suggests instincts unexplored and potentially unrealized by Veblen—those instincts (or adaptations) implicated in exchange behavior. I suggest (though admittedly do not trace) the evolution of adaptations for detecting cheating in exchange relations. These contribute components to the institutional evolution of social structures that now accompany exchange behavior. If such high level of specificity of exchange related behaviors exists currently in exchange relationships, it seems a simple logical step to argue that simpler, more foundational exchange behaviors are similarly traceable to instinctual foundations. From such a logical move the actual research in the anthropological, historical, and even the ethological record can ensue to discover other instinctual origins and histories of exchange behavior. This method can then lead to a more general search for instinctual origins of other behavior of importance for our understanding of contemporary economic phenomena. This might include a re-exploration in light of modern understandings of Veblen's instinctual speculations or it might entail the exploration of heretofore unexamined, or even unimagined, instinctual bases for behavior. The research program of evolutionary psychologists already demonstrates such ambitions. This could invigorate existing institutional inquiry and push it into new areas of inquiry.

The character of this new area of inquiry would be by its very nature looking for origins of human behavior in a complex of evolving instincts (or adaptations) that would develop into particular social institutions growing out of the particular and multiple environmental stimuli triggering particular human responses. These responses would be altered and refined through critical reflection based on the natural and cultural contexts and the consequences of the behavior once triggered until such behavior is routinized and habituated. Eventually this habituated behavior would be incorporated into the cultural matrix of a society and become habits of thought manifesting in social institutions of varying kinds. Note that even though instincts have a biological origin they always manifest in behavior that is contextual, cultural, and the product of intelligent reflection. This is not an unvarying human nature, but a constantly evolving one. Consequently, this general approach will not fall victim to the tendency to posit universalizing characterizations of human behavior and the human condition about which John Henry cautions us and adopts a methodology that he describes for us (Bell and Henry 2001, 207–208).

Notes

1 Indeed, Smith's attribution of propensities is for more than exchange, he presumes a propensity to truck and barter as well.

2 These instincts include an instinct of race solidarity "which we call conscience, including the sense of truthfulness and equity" (Veblen [1899] 1934, 221), instinctive affection (93) and an instinct of self-assertion (249) all in *The Theory of the Leisure Class*. In *The Instinct of Workmanship* he adds instincts of gregariousness and repulsion (Veblen 1990a, 10). He also introduces a category of "half tropismatic, half instinctive impulses" that include hunger, anger, and the prompting of sex (29). None of these instincts plays any role in Veblen's theorizing.

3 Both L. L. Bernard (1921) and M. Parmalee (1913) specifically criticized Veblen's use of the instinct concept. Later critiques included C. E. Ayres (see next footnote), Walker (1977), and Rutherford (1984).

4 Indeed C. E. Ayres, who would tremendously influence the next generation of Veblenian institutionalists, explicitly rejected instinct psychology and replaced it with a vague behaviorism in his work (Ayres 1978, 89–92). See also Ayres (1921a, 1921b, 1935, 1958, 1966).

5 Boyer and Petersen (2012) and Eastwood (2012) have addressed the question of whether evolutionary psychology is applicable to institutional economics. Their interest is different from the issue of instincts.

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5 A further Veblenian articulation of a monetary theory of production

Zdravka Todorova

Introduction

John Henry's economic analyses are based in a monetary theory of production. It is understood that those adopting a monetary theory of production approach seek a deeper understanding of the capitalist economy beyond the appearance of exchange and beyond pecuniary valuation. As a heterodox economist in the traditions of Marx and Veblen, John Henry explores what goes unnoticed by others and what is hidden beneath the surface. At a conference dinner once we were served a decorous dessert of an elaborate shape. As usual John was talking knowledgeably about something, while we were trying to crack through the hard white chocolate surface of our desserts. Halfway through the dessert and through his story, John stopped and asked critically: "What are we eating?!" In fact, beneath the complex and attractive white chocolate cover were air and a homogeneous, buttery, unhealthy substance—like the subject of John's book *The Making of Neoclassical Economics* (1990; see also Henry 2009).

The centrality of Marx and Veblen (and Keynes among others) is evident in John Henry's work. Yet he does not manifest an exclusive adherence to either one of them in his analysis of a monetary production economy. Marx's familiar formulation of the capitalist mode of production $M–C\ldots P\ldots C'–M'$ is the basis of understanding the monetary theory of production. At a most basic level, to my understanding, the monetary theory of production is an analysis in which money as a social relation is central to the process of undertaking production for exchange, that illustrates that capitalist production does not ensure livelihood—its main goal is money making, and, hence, that unemployment is a structural problem under capitalism (Veblen [1904] 2005, 104; [1919] 2005, 92; Keynes [1933] 1973; Henry 2014).

There are various formulations and specifications of the monetary theory of production. For example the edited volumes by Fontana and Realfonzo (2005) and Rochon and Seccareccia (2013) demonstrate the diversity in the monetary theory of production, including varieties of Circuitist and Post Keynesian approaches. In addition, links between Post

Keynesian, Institutional, and Feminist economics have been drawn by arguing for commonalities stemming from utilization of a monetary theory of production (Dillard 1980; Wray 2007; Jennings 1994; Todorova 2009). The work of Veblen has played a central role in revealing those links. Veblen's relevance for understanding contemporary capitalism has been discussed by a number of heterodox economists (see essays in Brown 1998; O'Hara 2002). Further, there are also works specifically expanding upon monetary production analysis by bringing in arguments drawing upon Veblen (Wray 2007; Jo and Henry 2015).

The present chapter offers further articulation of the monetary theory of production inspired by the writings of Veblen. This includes a formulation of the monetary theory of production as part of social provisioning and the life process, focusing on the production of non-commodities; an extension of the Veblenian dichotomy to non-market activities; a discussion of Veblen's theory of social valuation in connection to the monetary theory of production and class; and delineation of social processes that constitute social provisioning, and their commodity and non-commodity aspects. All of these are directed toward bridging the gap between monetary production and "the social"—this is also an effort very much present throughout Henry's work.

Monetary production, social provisioning, and the life process

Various explications of the monetary theory of production make it clear that pecuniary relations of exchange are only one of the elements of the capitalist economy. Much of heterodox economics has been directed toward re-envisioning the economy, and thus toward extending the scope of economics. One such effort is defining the economy as social provisioning and formulating the analysis of social provisioning (Nelson 1993; Dugger 1996; Hutchinson *et al.* 2002; Power 2004; Lee 2009, 2011; Jo 2011; Lee and Jo 2011; Todorova 2013).

Capitalist social provisioning is anchored in monetary production whose outcome is differentiated goods and services. The volume and composition of intermediate goods and services (i.e., basic goods) and of final goods and services (i.e., surplus goods) are determined by the agency of capitalists. Households, the business enterprise, and the state consume surplus goods to survive, to maintain lifestyle, and to reproduce themselves over time. That is, social provisioning is theoretically explained by the monetary theory of production, the surplus approach, and the theory of effective demand (Lee and Jo 2011; Lee 2009, 2011).

Social provisioning expands the scope of analysis in two main ways. First, like the monetary theory of production social provisioning analysis looks below the surface of exchange and studies the production and distribution of the social surplus (Lee and Jo 2011; Henry 2014). Thus an analysis of social provisioning is grounded in class relations and institutions/environment in a historical context. Second, social provisioning analysis goes beyond pecuniary valuation (Henry 2014; Power 2004; Todorova 2009), and deems important activities that are not directed toward markets (Power 2004; Todorova 2009, 2013). The latter answers Ann Jennings's (1994) call for further developments in the monetary theory of production alongside the feminist insights provided by Veblen. Thus, social provisioning is a broader concept than exchange and monetary production because it is tied directly to social activities and outcomes beyond finance, commerce, and commodity production. Some feminist economists have made a similar argument (see Picchio 1992; Elson 1998). The objective of this chapter is further articulating it in a Veblenian framework that is also, I argue, a feminist framework.

Consequently, the total social surplus includes commodities (produced for exchange and driven by the motive of making money) as well as non-commodities (not for exchange) that support the production of commodities, the reproduction of labor power, and the social fabric of the monetary production economy. While commodity production is *determined* by effective demand, non-commodity production is *affected* by effective demand. Further, effective demand has a structure—that is, the composition of effective demand depends upon structured social relations (e.g., gender, class, and race/ethnicity) as well as nature (Todorova 2015a, 2015b).

Table 5.1 outlines the monetary production process using Marx's notations and also taking the production of non-commodities into consideration. As Marx ([1867] 1967, 40) recognizes: "A thing can be useful and the product of human labour, without being a commodity." Marx continues: "Whoever directly satisfies his wants with the produce of his own labour, creates, indeed, use-values, but not commodities. In order to produce the latter, he must not only produce use-values, but use-values for others, social use-values" (40–41). Apparently, in this statement Marx has market exchange in mind when he refers to "use-values for others." In the fourth German edition of *Capital*, Engels adds a note in parenthesis: "(To become a commodity a product must be transferred to another, whom it will serve as a use-value, by means of an exchange)" (41). Thus, we could envision within this formulation a non-commodity (produced with labor power) that is transferred to others outside of market exchange. Feminist economists have made a point (in various ways) that non-commodities help reproduce labor power, and hence the economy. Then a following step should be re-defining *the economy* and developing an analysis of it. If monetary production is the organizing principle of the economy, non-commodity production should also be formulated and analyzed in the context of the monetary production economy. Furthermore, if monetary production is done through the production of the social surplus, then non-commodities enter the production of social surplus and a portion of non-commodities goes to support

Table 5.1 Monetary production: commodities and non-commodities

Obtaining inputs for production through money	$M < \begin{matrix} nC \\ C \end{matrix}$
Production of commodities	$\begin{matrix} nC \\ C \end{matrix} > C'$
Production of non-commodities and labor power	$M - C - nC - L$
Realization	$C' - M'$

social activities of households (or of other non-commodity producing going concerns).[1]

"Production" of non-commodities requires commodities and thus necessitates not only labor power but also income flows. Non-market activities are non-monetary only with respect to motivation. Non-market "outputs" do not generate income flows and are qualitatively different from market goods and services. They too are produced through labor power and (commodity and non-commodity) inputs.[2] Thus, "non-market" refers to organizational motivation, and does not mean it is located in a separate sphere; commodity and non-commodity production are intrinsically related in accordance with the capitalist mode of production.

Often the activities giving rise to non-commodities are theorized as "social reproduction" (Picchio 1992; Bakker 2007), which is then presumably opposed to production. Here I define production as a broader term that applies to both commodities and non-commodities. Then monetary production is a specific type of undertaking productive activities. In this way, we are able to define both monetary production and market exchange as social activities, and to acknowledge that "social reproduction" is part of monetary relations. Thus, social provisioning refers to the whole process of producing and distributing the total social product, which includes social reproduction as well as all other activities in the economy. Whether motivated by making money or not, any activities are socially organized. That is, markets are not "asocial"; rather markets are socially constructed. This view is at odds with the distinction between society and the market sphere (Todorova 2014). Some activities within the social process may contribute to or inhibit the life process, yet all of those are social in their organization. The Veblenian dichotomy discussed in the following section allows us to make the evaluative distinction of those activities with respect to their support or obstruction to the life process. In order to introduce the dichotomy, we will discuss first Veblen's notion of instincts.

Veblen's concept of *human proclivities* (or "instincts") is helpful in analyzing and evaluating various activities at the level of structure without erasing individuals from the analysis. Human proclivities are traits developed in the course of social and material interaction and in historical time. The instincts discussed by Veblen include: "parental bent," "idle curiosity," "workmanship," "self-preservation," "predation," "invidious distinction," and "emulation" (see Chapter 4 in this volume). Veblen's concept of instincts is not to be equated with personal attitudes. Motivation and valuation involve individual perceptions and actions, but distinction ought to be made between individual motives, subjective valuation, and identities on the one hand, and motivation behind social organization, social values, and structures on the other hand.

Workmanship is a sense of "the demerit of futility, waste, or incapacity" and a concern for continuation of the group life process (Veblen [1899] 1994, 9). Workmanship is also applied to business practices to master activities that promote invidious distinction, such as conspicuous leisure, as well as to perfect methods of predation and pecuniary gains (Veblen [1914] 1964, 160). Similarly, the "innate predisposition to *parental bent*" is a "resilient solicitude for the welfare of the young and the prospective fortunes of the group" (48, original emphasis). Yet, it also undergirds habits of life, of thought, and of processes that rely on notions of common interest—including nationalism, and surveillance and supervision by the state or the business enterprise (161).

Invidious distinction is a comparison of persons, goods, and activities

> with view to rating and grading them in respect of relative worth or value—in an aesthetic or moral sense—and so awarding and defining their relative degrees of complacency with which they may legitimately be contemplated by themselves and by others.
>
> (Veblen [1899] 1994, 22)

For example the distinction between "exploit" (through acquisition) and "drudgery" is an invidious distinction between employments (9). Thus, invidious distinction undergirds hierarchical differentiation based on wealth, division of labor, consumption, residence, and appearance.

Emulation manifests itself in terms of industrial serviceability as well as in practices of hierarchical differentiation and predatory activities. With respect to invidious distinction, it is "the stimulus for invidious comparison which prompts us to outdo those with whom we are in the habit of classing ourselves." The method of comparison is to emulate "those next above us in reputability," "while … compares itself with those below or with those who are considerably in advance." Thus, emulation among social classes could be traced in the end to the leisure class (Veblen [1899] 1994, 64).

The instinct of *self-preservation* is connected to the proclivity for emulation. Particularly in a pecuniary culture, when the possession of property becomes the basis of social esteem,

> it is necessary, in order to his own peace of mind, that an individual should possess as large a portion of goods as others with whom he is accustomed to class himself; and it is extremely gratifying to possess something more than others.
>
> (Veblen [1899] 1994, 20)

This leads us to the instinct of *predation*—an exploit by acquisition and seizure (Veblen [1899] 1994, 10). The end-in-view of predation is prowess, which manifests itself as force and fraud (167). Ferocity and astuteness are the traits that make up the "predaceous temper or spiritual attitude" (168). These traits succeed in the

> conversion of the economic substance of the collectivity to a growth alien to the collective life process.... Both are highly serviceable for individual expediency in a life looking to invidious success. Both also have a high aesthetic value. Both are fostered by the pecuniary culture. But both alike are of no use for the purposes of the collective action.
>
> (168)

On the contrary, *idle curiosity* is a drive to seek knowledge apart from any ulterior vested interest (Veblen [1914] 1964, 5). Idle curiosity is related to the aptitude of play—it is inquiry and exploration without notion of (pecuniary) expediency (Veblen [1906] 1947, 12). The scheme or system of knowledge reflects the culture. Thus, in a predatory culture: "[a] shrewd adaptation to this system of graded dignity and servitude becomes a matter of life and death, and men learn to think in these terms as ultimate and definitive" (14).

The delineated system of instincts provides the basis of Veblen's analysis of the evolution of pecuniary culture, and of the development of capitalism. Particularly he places economic activities within capitalism under the category of predation, business, or industry (Veblen [1914] 1964, 184). Table 5.2 offers a summary of Veblen's analysis, relying on his own terminology and description found in *The Theory of the Leisure Class* (1899), *The Theory of the Business Enterprise* (1904), *The Instinct of Workmanship* (1914), *The Vested Interests and the Common Man* (1919), and *Absentee Ownership and Business Enterprise* (1923). The table also offers a parallel to the notations describing the monetary theory of production, and intersects this analysis with Veblen's theory of social valuation and class analysis. The focus is on production and income-generating activities.[3]

This articulation lets us think beyond the conflict between production and speculation (or between enterprise and speculation) discussed in Keynes ([1936] 1964, 158–159). Veblen's categorization is broader than Keynes's because the applied end-criterion is *support for the life process*, of which employment (Keynes's concern) is one aspect, given a monetary

Table 5.2 Veblenian analysis of the capitalist economy and social valuation

Activities and their general form in the monetary production economy	*Effect on the life process*	*Effect on the individual in terms of accumulation of pecuniary wealth and social position*	*Motives, motivation, and end-in-view*	*Social valuation*
Predation $M - M'$	Disserviceable	Gainful	To gain repute for prowess	Meritorious, respectable
		Superior position	Infliction of damage, adventuresome exploit	
			Possession; subordination	
Business $M - C - M'$	Incidental serviceability	Gainful	To make money	Serving the common good
	Sabotage of production Social costs	Creative factor and source for initiative	Disciplining of industry to the ends of pecuniary gains	
			Business efficiency money, and markets	
Industry $M - nC$, $C - L$ $L - M - C$	Serviceable	Non-gainful	To make goods; to support the life process	Discreditable
		Subservience or submission	To gain access to and support livelihood	

production economy (second column). Veblen's category of predation includes Keynes's speculation, although it refers to broader processes such as violence. Business is equivalent to Keynes's enterprise. Veblen's analysis of the business enterprise allows him to make a more detailed distinction between business and industry. Thus, when held to the standard of the life process, industry is not just the production of goods and services, but in fact refers to the serviceability to livelihood. Furthermore, serviceability is a broad concept that includes a definition of human needs and the individuals as part of communities and ecosystems. Business also produces such serviceability, but that is incidental to the life process, as well as entails social costs, such as pollution resulting from production. Therefore, I argue that Veblen's notion of industry is broader than monetary production, which is evident given his discussion of division of labor, the industrial arts, parental bent, and the life process (for example, see Veblen [1914] 1964, 89–100). The rest of the chapter builds on this point.

Figure 5.1 depicts monetary production as a broader system of social provisioning. Money (*M*) purchases commodities (*C*) in order for capitalists to engage in production and gain more money (M') through production (*P*).[4] Monetary production requires produced labor power that is reproduced by produced commodity and non-commodity inputs. The monetary production process can take two forms: $M\!-C\ldots P\ldots C'\!-M'$ or $M\!-C\ldots P\ldots C\!-M'$. The latter form indicates that production actually does not increase the available commodity output, but still results in more money income to capitalists. On the other hand, activities not motivated by making money (undertaken by households, communities, and the state) produce non-commodities (*nC*) that sustain labor power (*L*) as well as other aspects of human life, and contribute to production of the social surplus. That is, livelihood is supported by other activities beyond market exchange, but non-market activities depend on inputs obtained through markets, and thus on money (Todorova 2009). Activities driven by the goal of obtaining more money need not involve production at all. Purely financial activities skip production altogether ($M - M'$) and, hence, do not contribute to the production of the social surplus, but create "vested interests"—claims on social surplus, or "free income" (Veblen [1904] 2005, [1919] 2005, 1923; Hudson 2010).

The following implications emerge out of the above formulation of the monetary production economy. First, the point that making goods that service livelihood is incidental in the monetary production process (Veblen [1919] 2005, 97; Keynes [1933] 1973; Henry 2011) is recognized

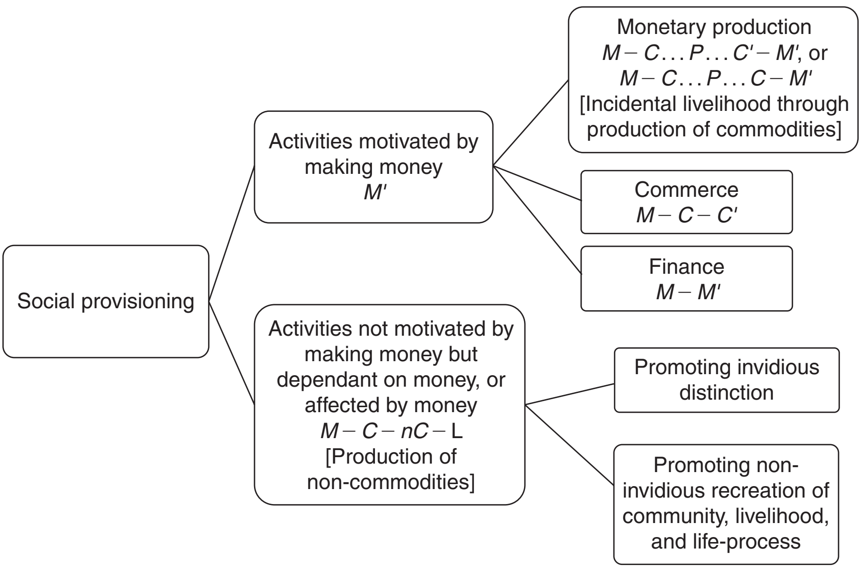

Figure 5.1 Monetary production as a part of social provisioning.

by Institutionalist and Post Keynesian analyses (Dillard 1980; Wray 2007; Lee 2009; Henry 2014). What needs further exploration and theorizing is agency that is exercised by those who direct the production and distribution of the social surplus within the economic class structure. This includes specific social activities and collective actions, as well as the institutionalization of discourse (conventional wisdom, rhetorical constructs; expert discourse signs, and their interrelations), social beliefs, and the emergence of personal attitudes. John Henry (1990, 2007, 2008, 2009) has explored precisely some of those avenues in studying the ideology supporting this very fact of organizing social provisioning around monetary production. His work exemplifies how fruitful and warranted is a further specification of the "social" and "cultural" as constituting and being reconstituted by market relations. The social structure of accumulation (SSA) approaches exemplify scholarship along those lines, particularly with respect to identifying institutional conditions for economic growth, as well as "contradictions" within the structure which manifestations impede capital accumulation and lead to a change in the structure (see Kotz 1994; O'Hara 2006, ch. 9). Capital accumulation and manifested contradictions of the structure are thus the focal points of SSA analysis. Veblen's analysis of pecuniary culture goes beyond those focal points.

Second, the point of a broader view of the economy as comprised and/or supported by market and non-market activities and outputs has been made in various ways by various feminist and social economics approaches (Picchio 1992; Fraad *et al.* 1994; O'Hara 1995; Elson 1998; Power 2004; Todorova 2009). However, making this point within Veblen's notion of the life process allows us to conceive "the state of industrial arts" of an economy as supported not only by engineering, science, and production of commodities, but also by birthing, raising, and educating people (Veblen 1921, 43), that is, by the production of non-commodities. It can be done without such vague notions as "human capital," "social capital," and "cultural capital."

Third, all social activities may promote invidious distinction rather than livelihood. Communities and the state generate non-commodities and engage in activities not directed to exchange, yet these may support the vested interests of a ruling class, or be part of invidious social class distinction such as communitarianism. The desire for community is a desire for social cohesion and identification which underline racism and ethnic chauvinism for example (Young 1986, 2). Similarly Todorova (2009) discusses the manifestation of "feminine aggression" in the context of unpaid household activities as invidious distinction based on proper womanhood. In what follows the Veblenian dichotomy is utilized to further articulate the point that both commodity and non-commodities may support or inhibit the life process.

Revisiting the Veblenian dichotomy

As discussed, in Veblen's analysis there is a dichotomy between "the business concern" (centered on pecuniary valuation) and the "industrial concern" (centered on the serviceability to the life process, or addressing problems of livelihood). The Veblenian dichotomy has been formulated as instrumental and ceremonial methods of valuation (Waller 1982; Bush 1987; Todorova 2009; Sturgeon 2010). Capitalist economy is organized in such a way that monetary valuation takes precedent over sustaining livelihood—and, thereby, ceremonial. Of course goods and services serving livelihood are produced by business activity, yet this is not the end-in-view of the monetary production process (Veblen [1904] 2005, 26; Henry 2014).

It ought to be stressed that "instrumental" is not equivalent to "useful," "good," "efficient," "productive," or "technological"—all of those notions are subject to instrumental/ceremonial valuation. Thus, something is useful or good for a particular end. There are instrumental efficiency and ceremonial efficiency; and there are ceremonial aspects to technology. Further, the productive–unproductive distinction as defined by classical political economy with respect to the accumulation of capital is not equivalent to the instrumental–ceremonial dichotomy formulated with respect to the continuation of the life process. Particularly, "instrumental" refers to the non-invidious continuation of the life process, and is not based on relativist subjective valuation (Tool 1996; Sturgeon 2010). Importantly, the dichotomy between pecuniary (ceremonial) and industrial (instrumental) is formulated with respect to the continuation of the life process, rather than with respect to individual subjective valuation. An instrumental theory of value is centered on "non-invidious recreation of community" through warranted knowledge, participation, work, and care (Tool 1996; O'Hara 1997; Hutchinson *et al.* 2002). In the context of a broader view of social provisioning discussed earlier, Table 5.3 offers a depiction of how the ceremonial and instrumental methods of valuation can be articulated both in activities motivated by making money (monetary production and finance, which direct the social surplus) and by activities not motivated by making money.

As finance (represented by $M–M'$) is entirely pecuniary, it is categorized here as a social activity with no instrumental attributes with respect to the social surplus, albeit the plethora of socially created financial "products." In no way does this imply that money is not central for production under capitalism, that money is neutral (not affecting output and effective demand), and that only "real" variables matter for economic analysis.[5] On the contrary, to theorize social provisioning under capitalism, it is essential to unveil pecuniary (ceremonial) valuation and its power to restrict or permit livelihood (see Chapter 12 in this volume). In this respect, it is worthwhile to note the case of community development credit unions and

Table 5.3 Social activities within capitalism: motivation and valuation

Motivation		*Valuation*	
		Ceremonial	*Instrumental*
Activities motivated by making money	*Production*	• Business concern • Vendibility • Salesmanship • Promoting invidious distinction	• Industrial concern • Engineering • Making "goods" • Non-invidious distinction
	Finance	• Speculation • Vendibility • Salesmanship • Invidious distinction	
Activities not motivated by making money (but dependant on/ affected by money)		*Unpaid activities* • Invidious distinction	*Unpaid activities* • Non-invidious recreation of community and life process

cooperative banks, and micro credit. On the one hand, if the serviceability to the life process is dominant, they do not fall under the described activity of finance. On the other hand, to the extent that these arrangements involve interest, they do fit in with the activity of finance. Even if proceeds go to "industrial" ends of livelihood, the mechanism is ceremonial because livelihood is again to be permitted *only* through pecuniary valuation. From an Institutionalist perspective the operation of these "social entrepreneurship" financial schemes within the system of capitalism is described as "ceremonial encapsulation."[6]

In a nutshell, all social activities, output, work, and processes include both ceremonial and instrumental aspects in various degrees. There is a continuum between instrumental and ceremonial valuation, as institutions contain both dimensions. Both are part of life. However, problem-solving involves recognizing the ceremonial aspects for what they are. Thus, the objective of bringing forward a distinction between ceremonial and instrumental logic of valuation is not to purport a world where only instrumental valuation exists—as this is impossible because there is always uncertainty—but to facilitate inquiry into the complexities and conflicts of social provisioning. Bringing in valuation into the analysis allows recognizing the complexity within both monetary and "non-monetary" activities.

First, in addition to the tension between production and speculation, the valuation dimension allows to scrutinize production itself. Monetary production has both ceremonial (pecuniary) and instrumental (making goods that serve livelihood) aspects. As noted, the latter is incidental to the process of making money. Veblen (1923), for example, discusses how in the capitalist economy "the volume of output is governed not by the productive capacity of the plant or the working capacity of the workmen, nor by the consumptive needs of the consumers" (112). He also observes "waste" with regards to the composition of business output represented by "duplication of work, personnel, equipment, and traffic" (146). Thus, as unemployment is always a monetary phenomenon (Keynes [1936] 1964, 235), so is the structure of monetary production. Veblen's categorization of income (vis-à-vis other activities) as predation, business, and industry are more nuanced than Keynes's ([1936] 1964, 158–159) distinction between enterprise and speculation. Thus the former allows a more detailed inquiry about the structure of the social product.

Second, the dichotomy facilitates the understanding of the complexity of activities organized on monetary principles. For example, paid care work is organized as part of monetary production, but it entails "intimate labor" that is not entirely governed by the money-making motivation; it does provide needed care (Zelizer 2010). That money enters the provision of care does not necessarily mean that individuals delivering this care are exclusively governed by making money (Folbre and Wright 2012). More generally, workers do not seek and keep employment only for the purpose of securing means to livelihood. The richness of human relations, however, does not nullify the centrality of economic compulsion to sell one's labor and the dependence on money for livelihood, including the dependence on money to access paid care. That richness is captured by conceiving social provisioning comprised of social process, as delineated in the next section.

Third, while the tension between making money versus making goods, and production versus speculation has been acknowledged with respect to market activities (Keynes [1933] 1973; Dillard 1980; Henry 2014), "non-market" activities have been either excluded from the analysis of capitalism, or not subjected to a similar scrutiny. The Veblenian dichotomy can be applied to all activities of social provisioning. In addition to their contribution to social reproduction, unpaid activities could also promote invidious distinction. For example, unpaid activities could be part of conspicuous consumption, conspicuous leisure, conspicuous waste, and generally invidious distinction (Todorova 2009). Consequently, the Veblenian dichotomy enables us to consider that unpaid activities are as diverse and complex as those activities carried out for money. The implication is that all social activities deserve critical analysis, since they are part of social provisioning. Taking them as something in opposition to monetary production and markets would limit the analysis of capitalism. The following section builds on this point.

Commodities, non-commodities, and the processes of social provisioning

A distinction between commodities and non-commodities enables analyses that do not equate the economy to monetary exchange. Further, it helps economic analysis in acknowledging that humans have other dimensions in addition to material provisioning, and to the inescapable (under capitalism) market participation. The purpose of such a distinction is not to conceive of neatly defined impenetrable spheres of autonomous activities. While there are different motives for organizing social activities, there is no real separation between the market and non-market social activities and outcomes (Charusheela and Danby 2006).

The *analytical* distinction between social activities whose *organization* is driven by making money and those activities that are not (but nonetheless are impacted by money and commodities) is dichotomous rather than dualistic. A *dichotomy* breaks analytically the social provisioning process in two to allow the study of diverse motives and methods of valuation. The pieces are put back together into one reality of the social provisioning process. On the contrary, *dualism* treats those as separate spheres of reality, and establishes hierarchical oppositions (Jennings 1999; Todorova 2009; Sturgeon 2010). Further, the analytical distinction between monetary and non-monetary motives is not identical to a distinction between the state and the market sphere—as pecuniary motives and valuation enter the state's activities too; this is especially evident under neoliberalism (Galbraith 2008).

The dichotomous approach to social valuation enables us to recognize the analytical importance of differences in the organization of social provisioning without drawing a border between markets and society. Such dualisms result either in idealization or in obscuring one or the other. The "social" is part of monetary production. Thus, it is important to study both the effects of money on the production of non-commodities, as well as how monetary activities are underlined by other social relations.

The concept of social processes helps transcend this division between monetary production and the social. A social process is formulated on the basis of a social activity that constitutes social provisioning. Yet, social activities are just one element of social processes. Other elements include working rules and procedures, which comprise conventions, discourse, symbols, norms of valuation, standards, personal attitudes, rituals, and customs. All of these emerge out of the activities of going concerns, such as the business enterprises, households, the state (see Todorova 2014, 2015b, for further discussion and application).

Table 5.4 lists what I consider the social process based on social provisioning activities. The table also depicts how those social processes may take distinctive forms within the two intertwined components of social provisioning—activities motivated by making money and those that are not motivated by money. Those activities in bold have been traditionally the focus of the monetary theory of production. They are now located in a broader framework of social processes constituting social provisioning. Therefore what the table indicates is that there is further potential for the development of a monetary theory of production.

The delineated social processes are not posited as fixed and universal. They can be altered in a specific context. Further, they are based in and also affect the evolution of geographies, landscapes, physical spaces/buildings, and biological life processes (bodies, biophysical processes and ecosystems). In addition, other processes include gender, race/ethnicity, social class, language, economic class, citizenship and legal residency, ownership, contracts, worship, and kinship. Each one of those processes, their categorization and interrelations are discussed in Todorova (2014). For a more detailed discussion specifically of the social process of consumption see Todorova (2015b); for a particular application of the commodity non-commodity aspects of the consumption process in the context of capitalism see Todorova (2015a).

Conclusion

In the spirit of John Henry's contributions of locating economic phenomena in a broader social context, this chapter articulates the monetary theory of production drawing upon Veblen's work. Monetary production

Table 5.4 Processes based on social provisioning activities

Processes based on social provisioning activities	*Examples of how these are manifested as non-money driven activities*	*Examples of how these are manifested as money driven activities*
Labor	pregnancy/birthing/breastfeeding; unpaid household and community work; subsistence production; learning; invention	**wage work**; **monetary production**; slavery; debt-bondage; internships; learning; **invention**
Care	parenthood; family, community relations; public services	paid care work; market care services
Recreation	art; healing; spirituality; connection to nature; public space	art for sale; commercial sports and physical exercise; for-profit health system; private fees
Mobility and residence	public transportation; public spaces	individualized automobile transportation; suburban sprawl; development of tourism; access to information through fees; internet; gated communities; privatized spaces; (il)liquidity
Consumption	consumption of non-commodities	**commodity consumption**; invidious distinction based on consumption
Communication, expression, and persuasion	language development; art	corporate media; development of market expert discourse and folklore about markets; art for sale; advertising
Undertaking	mobilization; community organizing	**entrepreneurship**; **investment**; mobilization
Cultivation and transmission of knowledge, memories, and tools	technology; invention; (mis)education; oral history and folklore; public education; public libraries; public pooling of resources; art; destruction of resources	**technology**; **invention**; (mis)education; schooling in exchange for fees; art, publishing and research driven by money; patents; destruction of resources
Resource creation and usage	innovations in not-for market production and activities; reciprocity in use of resources	**financially feasible innovations and R&D**; patents
Machine process	domestic “labor-saving” appliances; sharing of tools	standardization for commercial reasons; tools cannot be shared; standardization in education; education as business enterprises; corporate driven education

Supervision, direction, surveillance	censorship and political surveillance, detention, and imprisonment—may not be (directly) influenced by monetary motives, but may support vested interests; biometrics; passports; parenting	management; productivity assessments; business data mining; marketing surveys and profiling
Threat and punishment	censorship and political surveillance, detention and imprisonment—may not be (directly) influenced by monetary motives, but may support vested interests; stigmatization parental disciplining; spousal financial dependency protests; strikes	welfare system; **unemployment**; **prison and military industrial complex**; **disciplining workers**; surveillance for salesmanship; **austerity policies**; advertising and consumption based on fear; security and surveillance complex; credit scoring; censorship
Distribution	obligations; needs; “human rights”	**administered prices and incomes**; property rights
Gift/exchange	gift	**exchange**; **trade**; **speculation**; charity
Deprivation	malnutrition, ignorance, immobility, etc. caused by ceremonial reasons other than pecuniary motives	sabotage of industrial efficiency and production; destruction of resources; **austerity policies**; **sovereign taxation**; deprivation from recreation time and resources; paid promotion of mis-information and promotion of ignorance and anti-intellectualism
Waste	reuse; repurposing; disposal	recycling and reuse business practices; cost cutting-disposal; **unemployment** and other resource destruction effects of pecuniary deprivation
Debt-credit	obligation; **taxation**	**finance**; **interest**; **taxation**
Violence	invidious comparison based on moral or physical judgment about personal worth; domestic violence; domination (including over nature); war	invidious comparison based on money/wealth; slave trade; dispossession and displacement; environmental destruction driven by monetary acquisition; **prison and military industrial complex**; ecological destruction through extraction

is embedded in social provisioning, and is part of culture and more generally of the life process. The chapter emphasizes that the economy is supported by activities, work, and output that are not directed to market exchange, and that the economy is in fact broader than markets. Consequently, while the monetary theory of production is central to the analysis of capitalist economy, it ought to incorporate its relation to a broader context of social valuation. Indeed, Veblen's analyses help us escape a dualism between material and immaterial phenomena—in particular, his analysis of culture and nature constituting the life process provides not only the frame of economic analysis, but also the criteria for evaluating economic outcomes (Veblen [1914] 1964, 14).

The outlined social processes are inspired by, but not limited to, Veblen's work. Indeed, the conceptualization of social processes is influenced by Marxist political economy, social economics, social structure of accumulation, and feminist economics. It is important to emphasize this point for two reasons. First, Veblen's framework is versatile precisely because he uses the life process as his starting point, and thus it can be connected to various areas of inquiry. Second, Veblen's writings are not merely descriptive but also theory oriented. He offers a well-developed micro-macro monetary theory of production that could connect to a number of focal points of various approaches in heterodox economics. Finally, a Veblenian articulation is important for building a more general heterodox economic theory.

The hope is that the offered Veblenian articulation would contribute to a wider usage of the monetary theory of production. For example, the commodity, non-commodity distinction emphasized here is a bridge to feminist economics. For that reason the present analysis could be described as feminist-institutional (although institutionalism is comprised of many other insights beyond Veblen). Despite his feminism and its potential for advancing feminist theory, Veblen has not received much attention from feminist economists. Todorova's 2009 work is an effort for a Veblenian analysis of a monetary production economy, focusing on gender. The present articulation is a continuation of those efforts. John Henry has been a true inspiration and a valuable resource in this pursuit. His presence and engagement with students at UMKC was (and still is, even after his retirement) a fundamental contribution to the nature of the department as a place where having a vision and expanding boundaries are not in contradiction.

Acknowledgments

I am grateful to Tae-Hee Jo for valuable suggestions and for editorial assistance in preparing this chapter, as well as to John Henry for commenting on my work on the topic over the years. I am also thankful to Wright State University, the Raj Soin College of Business, and Dean Joan Lee for providing a sabbatical support, as well as to the Gender Studies Department at the Central European University, where I spent my sabbatical and wrote parts of this chapter.

Notes

1 If we follow Marxist analytical categories, a question is raised: do non-commodities and the labor power that produce them contribute to the generation of surplus value? Indeed, this has been the center of the so-called "domestic labor debates" (see, for example, Himmelweit and Mohun 1977).

2 As households' contribution to production is recognized, there should also be an understanding that households are fundamentally different from firms (Todorova 2009).

3 If consumption activities are to be considered here, the table would include a row for "pecuniary leisure" involving waste, conspicuous consumption of accumulated wealth, superior social position, invidious distinction, and social reputability and standard setting. This is to be contrasted to those who are unemployed and may receive incomes through the state support, for example. Those individuals are with different social standing ("blameful"), and their experiences are very different from the lifestyles of the leisure class, and their consumption standards are lower, albeit through emulation in society, affected by those of the leisure class.

4 This depiction of overall monetary production does not imply that at any one point in time a business enterprise ought to maximize profits.

5 For a further argument that the Veblenian dichotomy avoids the pitfall of "real" versus "monetary" dualism, see Todorova (2009).

6 For discussions of the term "ceremonial encapsulation," see, for example, Bush (1987) and Todorova (2009).

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6 Is conspicuous consumption a weak concept?

An historical perspective on the French Revolution and capitalism

Andrew B. Trigg

Introduction

Veblen's concept of conspicuous consumption provides a key dimension to the heterodox critique of neoclassical consumer theory. Instead of sovereign consumers deciding what is produced in the market, they are instead seen by Veblen as dependent chattels, their tastes and lifestyles aping the vast spending power of the ruling class. The purpose of this chapter is to raise some questions about the concept of conspicuous consumption from a historical perspective. As argued by John F. Henry throughout his work, and in particular in his magnum opus, *The Making of Neoclassical Economics* (1990), ideas must be evaluated in relation to specific social contexts. In addition, by focusing on consumption, the chapter attempts an alternative contribution to the literature on Marx and Veblen (see O'Hara 2001; Henry 2002; and other contributions in this volume), which tends to focus on Veblen's writings on capitalist business and enterprise.

There are two main lines of exploration. It will first be shown that the theory of conspicuous consumption can provide useful insights into key events in history. A notable example is the lavish lifestyle of the royal court in Versailles under France's ancien régime, in particular that of Louis XVI and his queen, Marie Antoinette. The luxury of the royal court is shown to be in sharp contrast to the poverty and starvation of the population, an important element in the ensuing French Revolution.

Second, conspicuous consumption plays a key role in examining the origin of economics as a discipline in the seventeenth and eighteenth centuries. On the one hand the progressive consumptionists, such as Voltaire and Hume, herald the triumph of liberal free expression over archaic Christianity; on the other hand the French physiocrats, led by Quesnay, argue that luxury consumption drains resources from productive agriculture. Conspicuous consumption serves a role in explaining the ideological ascent and demise of the lifestyles enjoyed by the French royal court. But this is all before the French Revolution. What role is there for the theory of conspicuous consumption once the ancien régime has fallen apart? It will be argued that Veblen's theory reaches its peak in contributing to our understanding of the French Revolution; it is a relatively weak concept in specifying what Marx called the *differentia specifica* of capitalism: its specific peculiarities as a mode of production.

Veblen and the Capets

Veblen identifies a leisure class at the top of a social hierarchy that is sustained by the laboring activity of the lower orders. In his *Theory of the Leisure Class*, first published in 1899, Veblen shows how this leisure class emerged out of earlier barbarian cultures. Under economic development, increases in productivity allow a burgeoning surplus to be produced that is transferred from those that work to those that do not have to work. A leisure class can live off the fruits of labor provided by others.

The consequent wealth enjoyed by members of the leisure class gives them a position of honor and status. In order to maintain this social position, any association with productive labor is to be avoided; there is a "shamefulness of manual labour" (Veblen [1899] 1994, 27), which is a powerful social norm for those at the top of the social hierarchy. In one extreme example given by Veblen: "So, for instance, we are told of certain Polynesian chiefs, who, under the stress of good form, preferred to starve rather than carry their food to their mouths with their own hands" (Veblen [1899] 1994, 27).

Instead of manual labor, members of the leisure class engage in unproductive activities that are used to display wealth. There are two main vehicles for this display: leisure activities (conspicuous leisure) and expenditure on goods and services (conspicuous consumption). By making these activities conspicuous those at the top of the hierarchy induce others to form judgments about their social position.

The analytical power of Veblen's theory of the leisure class is exemplified by the extravagance exhibited by Louise XVI and his queen, Marie Antoinette, in the period that preceded the 1879 French Revolution. The 'Capets,' as they were renamed under the abolition of titles during the revolution, were accused of driving France into bankruptcy with their lavish lifestyle. It was Marie Antoinette who seemed to incur most of the wrath, referred to by the French public as 'Madame Deficit.' There was of course no such thing as a free and objective press in eighteenth-century France, with so many of the accusations based on the scurrilous rumor of underground pamphlets; but there are several aspects of the royal family's behavior which seem to be consistent with Veblen's theory.

It can first be observed that the bulk of royal routine was spent on unproductive leisure time. For Veblen ([1899] 1994, 26) the core leisure class activities are "government, war, sports, and devout observances." Louis XVI was a reluctant head of government, which was part of the problem, his lack of engagement with current affairs allowing him to be badly advised—not least by his ultra-conservative brothers: the Comte de Provence and the Comte d'Artois (who each had terms as King of France after the restoration). His worst decision was French involvement in the American War of Independence, where the republican rebels sought to depose France's neighboring monarch, the King of England. It was arguably the expense required for ships to fight the British in the West Indies and the North American seaboard, added to resources required to defend the French homeland, which generated the ballooning French deficit.

Louis had a passion for the French navy; this was how he fulfilled his warlike status as a leading member of the leisure class. Symbolic of his commitment to and failure in this role is the grandiose scheme he promoted for the transformation of the port of Cherbourg in Brittany as a defense against British aggression. As chronicled by Simon Schama, Louis backed a plan, in 1784, "for immense, hollow chests of oak" (Schama 1989, 43), ninety of which were to be lined up in a chain to form the new harbor. The project was an expensive disaster with the cones proving too difficult to install, and collapsing under the weight of the sea. By 1800 only one of these rotting pieces of wood still remained in Cherbourg harbor.

When not pouring French resources into giant wooden cones, the king's great obsession was to hunt, usually three or four times a week. For Veblen, hunting is a leisure class activity that survives the earlier barbarian stages of culture when it was associated with the need to obtain food. Under a developed leisure class, hunting becomes a sport, with the thrill of the chase its main objective. "It is this latter development of the chase—purged of all imputation of handicraft—that alone is meritorious and fairly belongs in the scheme of life of the developed leisure class" (Veblen [1899] 1994, 26). Though regarded to be physically awkward, on a horse Louis had the strength to excel at hunting, his kills painstakingly recorded in his *Journal*, an entirely unproductive activity, time that might have been better spent studying the government's fiscal position.

For the queen, though she often attended the hunt out of duty, gambling was her vice: a key wasteful activity for members of the leisure class. She played card games with members of the court, late into the night. At times even members of the bourgeoisie had to be brought in to play, when her fellow aristocrats ran out of money. And as observed in Antonia Fraser's biography of Marie Antoinette: "It was not even that profit was the point of it all; the Queen gambled to be in the fashion and to amuse herself, not to win" (Fraser 2001, 168). The queen at times lost so much money gambling that this affected her charity contributions. Similarly, the king's brothers were not so conservative on this front, with Louis regularly having to settle their gambling debts.

Religious observances, the final key wasteful activity ascribed by Veblen to the leisure class, were also central to the lifestyle of the king and queen. Daily attendance of mass, and numerous religious ceremonies throughout the year cemented the divine status of the French king. Though the queen resisted religious instruction in her youth, and was less devout than her husband, in later years she also developed a degree of piety. This behavior took place in a wider institutional context. Religion was enshrined in the institutional structure of the ancien régime, with the church referred to as the first estate alongside the nobility, the second estate. Both enjoyed feudal privileges such as tithes and exemption from taxation.

It may be therefore concluded that the French royals seemed to excel at the full range of conspicuous leisure activities. What of conspicuous consumption? For this too we are not short of examples. The most notable example is the size of the royal court itself. The queen had a household of about 500 members, at a cost of four million livres—similar in size to that of the king's two brothers and their wives (Fraser 2001, 152). The king had an even larger household, as would be expected, but even the English ambassador, attached to the French court, had over 50 servants at his château. A vast array of functionaries ranging from footmen, cooks, huntsmen, and attendants to the bedchamber was employed in the grand façade of royal etiquette. As reported by Fraser (2001, 53): "Marie Antoinette had, for example, a Grand Almoner [church officer], a First Almoner, an Almoner in Ordinary, four almoners who rotated quarterly, four quarterly chaplains, for quarterly chapel boys, down to two chapel summoners." Similarly, "an amazed English visitor watched a supper party given by the Prince de Condé at which eight people were waited on at table by twenty-five attendants" (152). As summarized by Veblen ([1899] 1994, 35): "These servants are useful more for show than for service actually performed."

The royal couple had a particular taste for furniture and furnishings. For the queen's model village, at the Petit Trianon, "over 1,000 white porcelain pots, with the Queen's monogram on them in blue" were commissioned (Fraser 2001, 247). Even in times of cutbacks in 1787, as the deficit mushroomed:

> it is noticeable that much of the heavy private royal expenditure on furniture and so forth continued as before. In these years the King (who greeted reduction in the numbers of horses sulkily) bought the château of Rambouillet to improve his hunting prospects still further, and there were redecorations both at Rambouillet and at Fontainebleau.
>
> (Fraser 2001, 303)

The queen was also an avid shopper for clothing and accessories.

> Bills were sent in for four new pairs of shoes a week, three yards of ribbon daily to tie the royal peignoir (that is, brand-new ribbon) and two brand-new yards of green taffeta daily to cover the basket in which

> the royal fan and gloves were carried. And these were only minor items.
>
> (Fraser 2001, 178)

There was also an "extraordinary amount of new outfits ordered annually – twelve court dresses, twelve riding habits and so forth and so on…" (178).

It might be argued that the queen was much more subtle in her expenditures, at least as she got older, than her reputation would suggest. She became less fond of expensive jewelry, perhaps also due to lack of funds: on one occasion the king had to lend her 400,000 livres for a pair of diamond bracelets (Fraser 2001, 178). Some evidence of the slight tempering of her ostentatious consumption is provided by the notorious Diamond Necklace Scandal. Indicative of how the royal court worked, a certain Cardinal de Rohan was tricked into becoming involved in the fraudulent sale to the queen of a diamond necklace (reputedly the most expensive piece of jewelry in the world) in order to win her favor. The queen did not want the piece—it was a 'loud item' (Schama 1989, 171) that had become out of fashion compared to the more simple tastes of the queen and society. But when the scandal broke she was accused of callously undermining the cardinal, who was sent into exile. The queen is, however, generally believed to be innocent in this regard, and furthermore was not given in later life to such overt displays of conspicuous consumption. Her tastes were more rustic, as exemplified by the rural design of the Petit Trianon, and in dress she favored simple linens, which became all the rage in eighteenth-century France. As argued by Trigg (2001), this type of subtlety can be captured in a theory of conspicuous consumption, which builds on Veblen's recognition of the role of aesthetics, taste, and culture.

The revolutionary backdrop

Louis XVI and his queen were the last French royal family to preside over the leisure class that presided over the ancien régime. A key question is what went wrong? How can a queen with 500 attendants move from her honorific position at the top of the social hierarchy to being paraded in an open cart, hands tied, to the guillotine? What role, if any, does Veblen's theory have in explaining the causes of the French Revolution of 1789?

Was the Capets' expenditure excessively lavish? Surely all royals behaved in this way? Their seventeenth-century predecessor Louis XIV, the Sun King, was the grandmaster of luxury, turning the royal hunting lodge at Versailles into the greatest royal palace in Europe. As observed by Bluche (1990, 196), "the king's *grands salons* were designed to glorify the reign and symbolize the grandeur of the kingdom, to stupefy ambassadors, to seduce princes and to receive a court." And though Louis XIV has been applauded for his refinement, it can be seen as integral to his position as absolute monarch. For Hill (1999, 83):

> If the greatness of a monarch is reflected in monuments, military adventures, clever diplomacy, splendour at court and the opulence of the royal personage, then Louis XIV has every claim to be called the Sun King, for in all these achievements he excelled. If the quality of his reign is measured in terms of the people's liberty, then the reign of Louis XIV bears the indelible stamp of tyranny.

Compared to the subsequent chaos in France in the years that followed his reign, Louis XIV brought order to the country, controlling the nobility and the budget.

During this time, expenditure on luxury had been seen as beneficial for the French economy, so long as luxury goods were not all imported. Colbert, the dominant minister who ran the government on behalf of Louis XIV, promoted the development of a luxury goods producing sector. In Paris he set up "the largest manufactory in the world for tapestry, jewellery, cabinet-making, painting and sculpture, the greatest fine- and applied-art school" (Bluche 1990, 164). As reported by Kwass (2004, 198):

> Paris alone, as we should recall, was home to more than two dozen royal manufactures devoted to fabricating luxury goods, countless individual artisans possessing the privilege to produce for a magnificent royal court, and scores of large guilds specializing in the production of decorative objects; the painters and sculptors corporation alone had over a thousand members.

Colbert even smuggled foreign craftsmen into France in order to develop the luxury goods sector.

For Colbert, the wealth of the nation, measured in money specie, was dependent on the balance of trade. France had no domestic capacity to produce precious metals, so if imports were to exceed exports then the country would lose money specie. To lionize an absolute monarch without running a trade deficit, it was vital that France had its own sector for the manufacture of luxury goods. What became known as Colbertism is a variant of the classic mercantilist approach in which a country's prosperity can only be developed at the expense of another.

Colbert was also responding to a nascent consumer revolution in which a scramble for luxury products was taking place. This has perhaps received less attention than the consumer revolution that took place in Britain during the eighteenth century. The historians McKendrick *et al.* (1982) have, for example, highlighted the key role of royal tastes in driving the boom in the consumption of pottery, as orchestrated by Josiah Wedgwood.

An influential collection, for example, which Wedgwood designed in honor of George III's wife, Queen Charlotte, was so successful with her and the public that it became known as Queen's ware. In seventeenth-century France, Colbert ensured that the foundations of the consumer revolution were led by Louis IV. When Louis bought French luxury products this gave them a cache that trickled down to the rest of the population—a key aspect of conspicuous consumption—not just in France but throughout Europe. If Louis bought French then everyone else would follow.

In the wake of Colbertism, the eighteenth century saw the birth of new ideas that promoted and defended the luxury economy. As summarized by Kwass (2004, 191):

> Developed in the first half of the eighteenth century (first in Britain, then in France) by an extraordinary assemblage of economists, poets, and philosophers (Bernard Mandeville, Jan-Francois Melon, Voltaire, David Hume, to name the most famous), progressive consumptionism reversed the teachings of classical philosophy and Christianity to assert that luxury consumption was a social good.

Kwass identifies two main strands of progressive consumptionism. On the one hand for Mandeville, with his *Fable of the Bees,* luxury consumption had unintended consequences. Though you might pass judgment on the consumption of each individual, any tempering of their vice would undermine the prosperity of those who work in the luxury goods sector. On the other hand, for Voltaire and Hume, far from being morally wrong it was regarded as natural that individuals should develop tastes for consumer goods. This was seen as part of the development of art and science under the Enlightenment.

> Voltaire imagined a crooked line of historical progression that began with ancient Greece under Philip and Alexander, passed through Rome under Caesar and Augustus and Florence under the Medici, and culminated in France during the reign of Louis XIV. Each of these ages represented an upward swing in luxury and a corresponding flowering of arts and sciences.
>
> (Kwass 2004, 191)

Hume argued that "innocent luxury" induced hard work, benefiting the wealth of the nation. "In a nation where there is no demand for … superfluities men sink into indolence, lose all enjoyment of life, and are useless to the public which cannot support its fleet and armies, from the industry of such slothful members" (Hume, quoted in Marshall 2000, 634).

There is a context, therefore, for the luxury expenditure of the Capets. The young Marie Antoinette, driving into Versailles in her gilded carriage to marry the dauphin, was joining the opulent royal court, established by Louis XIV. She was decorating her chambers in furnishings produced in Colbert's factories; her tastes were responding to and helping shape the consumer revolution that gathered pace in eighteenth-century France—as legitimized by some of the great thinkers of the day.

The specter of capitalism

All may have been fine if the people had not been so hungry. The march of market women from Paris to Versailles, in October 1879, was initially driven by a demand for bread, not the heads of the king and queen. Their representative

> was certainly strong-minded enough to harangue the King on the need of the people of Paris for bread. When the King offered to tell the directors of two granaries to release all possible stores she went away to join her comrades, only to return so as to get the King's order in writing.
>
> (Fraser 2001, 349)

But this was not enough, with the mob later that day shepherding the royal family to Paris, never to return again to the palace of the Sun King.

Shortages of grain were a regular occurrence in eighteenth-century France, and the underlying problems with the agricultural sector provide a further important backdrop to the French Revolution. Bowman (1951, 5) summarized the problem in the seventeenth and eighteenth centuries: "Agriculture was in a sorry state, poverty dire, and a flight of men and wealth from the fields to the towns intensified the contrast between the brittle luxury of an ostentatious minority and the misery of the common lot."

For the embryonic liberal economists, known as physiocrats, luxury consumption, served by royally appointed manufacturers, with monopolist privileges, was part of the legal complex of regulations associated with mercantilism. For writers such as Mirabeau, these privileges distorted the market, preventing the natural order of a free trade economy in which the agricultural sector can properly function. Luxury consumption drew the rural population into Paris, away from the land, corrupting the youth; it encouraged the "fashionable absentee landlord" (Kwass 2004, 193); and ultimately it undermined the monarchy. There is also a moral element to Mirabeau's nascent liberalism. If under conspicuous consumption all are aping the consumption of the royalty, this destroys the symbolic appeal of the absolute monarchy. With the lower orders aiming to dress and furnish their houses in the same way as those at the top, and those at the top trying to distinguish themselves from their inferiors, royalty becomes ordinary and devalued. A devalued monarchy and a starving mob; not a recipe for stability.

At the heart of the physiocrat project, Quesnay's *tableau economique* privileged the value of agricultural labor. Non-agricultural labor was usually considered to be sterile. In defining an agricultural produit net (surplus), Quesnay develops some of the foundations of national income accounting. Rather than considering the wealth of the nation, as under Colbertism, as its hoard of money specie, the physiocrats focused on its annual production—what later evolved into concepts such as national product. Though rather complicated, sometimes disparagingly referred to as a zigzag, this was one of the first economic models, showing how the interdependence between parts of an economic system could be examined.

Fox-Genovese (1976) argued that the ideas of the physiocrats were prompted by the fiscal problems that followed the Seven Years War (1756–1763). Existing taxes were insufficient to pay off debts. There was no unified tax system in France, with an array of dukedoms that had historically evolved in response to wars and acquisitions, with different laws, regulations, and a multiplicity of courts ran by different church and aristocratic bodies. Unpaid collectors were earmarked to ask for taxes from their neighbors, who had the right to appeal to a court devoted to fiscal matters. Richer neighbors were able to threaten and cajole the often low status tax collectors. Taxes tended to fall on the peasants, who in turn tried to conceal how much they earned, since the burden on them was so heavy (Hill 1999, 39).

For Turgot, the physiocrat who served as Louis XVI's first Controller of Finance, the produit net provided the source for tax revenue. So the main focus of tax reform should be to improve the surplus generated by agriculture. And since the peasants were farming the worse land, it was unjust and economically inefficient for them to shoulder the burden of tax. The nobility, largely exempt from tax, opposed all change. Having recovered from its period of subjection under Louis XIV, the nobility confidently resisted all suggestion of tax reform, bolstered by conservative elements in the royal court, including the king's reactionary brothers. For Hill (1999, 37) the refined consumption of the nobility is intrinsic to their position on tax. He writes:

> The main beneficiaries of this injustice were the privileged and powdered folk of Versailles, who needed an income exempt of taxation to reward their various duties of state, such as holding the king's shirt or handkerchief for a few moments each day.

Furthermore, agriculture could only flourish if there was a return to a natural free market, where produce could be sold without the complicated layers of restrictions that characterized eighteenth-century France. The physiocrats were early proponents of laissez-faire economics. Turgot abolished tolls on the transport of grain, and broke up the monopolies that merchants and guilds had enjoyed under mercantilism. But, as shown by

Schama (1989, 68), Turgot's timing was awful, his reforms coinciding with a bad harvest and blamed for the high prices that ensued. Turgot suppressed the riots with troops and hangings, but in the end the reforms had to be rolled back.

Turgot also sought to abolish the corvée, a system of forced labor, in which the nobles could instruct peasants to work on various initiatives. This was hated by the peasants, took labor away from the land, and allowed the nobles to avoid paying tax for public projects. Turgot tried to replace the system with a property tax, which the nobles resisted with all their might. In the venal system, many who were not even from aristocratic families had managed to buy positions of office that gave them exemption from taxation. The power and influence of the nobility was too pervasive for the liberal economics of the physiocrats.

It was not until several years after the 1789 Revolution, when the new republic started to develop, in particular under the great bureaucrat Napoleon, that a more uniform market and taxation system could be established. Napoleon appointed eight tax officials to each of the new French departments, set up previously during the Revolution, with a prize for the department that first collected its tax quota: the most beautiful square in Paris was named Place des Vosges after this department. Cronin (1971, 195) applauds Napoleon's success: "The new system of tax collection worked. Under the Consulate Napoleon annually drew 660 million from income tax and public property, 185 million more than the old régime had obtained from dozens of different levies in 1788."

Consistent with this narrative, Marx saw the French Revolution as a victory for the bourgeoisie. In the *Eighteenth Brumaire of Louis Napoleon*, he argued that the revolutionary leaders in 1789 "smashed the feudal basis to pieces and struck off the feudal heads which had grown on it" (Marx 2010, 147). Then Napoleon "created the conditions which first made possible the development of free competition, the exploitation of the land by small peasant property, and the application of the unleashed productive power of the nation's industries" (147). This interpretation is of course contested. Revisionist historians, such as Furet and Schama, argue that there was a great deal of continuity before and after the Revolution, and that its causes were cultural and political rather than economic. The leaders of the Revolution were patriotic aristocrats rather than bourgeois merchants and manufacturers, it is argued, fuelled by the ideology of Roman republicanism rather than liberal economics. Heller (2010) has defended Marx's position, arguing that this focus on cultural and political forces is too superficial, failing to recognize the dynamic economic foundations of the Revolution.

Conclusion

This chapter has explored a number of roles for Veblen's theory of the leisure class in understanding the French Revolution. It first contributes to our understanding of the cultural basis of the leisure class, as exemplified in its most developed form by Louis XVI and his queen, Marie Antoinette. Their lifestyle of hunting and gambling, furnishing their palaces for a vast royal court, bear all the trappings of conspicuous leisure and consumption. But this is not an autonomous cultural process, as might be theorized by the revisionist historians. It is based on the economic surplus produced in a system of class-based hierarchy. In that sense, Veblen's approach has an affinity with that of Marx, when applied to the feudal system.

Furthermore, in seventeenth- and eighteenth-century Europe the royal lifestyle both led and responded to the consumer revolution: a revolution in the economics of luxury good production and consumption that previously under Colbert had started to shake away the constraints of Christian medievalism. The leisure class reaches its mature form under this luxury excess, but at the same time it paves the way for liberal economics. In the writings of progressive consumptionists, such as Hume and Voltaire, we see an emphasis on the freedom of expression of individuals in their personal expenditure decisions.

In the immediate period before the Revolution, the panoply of royal privileges that had evolved under Colbertism became a constraint on economic progress. As argued by the physiocrats, the privileged nobility, fluttering around the royal court, had no interest in the real source of wealth, based on agriculture. They were absentee landlords more concerned with their position in court than the state of the land. By refusing to pay taxes they placed a heavy tax burden on the peasants; through their feudal restrictions on trade, they prevented the flow of corn from the land to the growing cities. The natural order which the physiocrats saw as underlying a free market economy was distorted by the feudal system. In this narrative, Veblen's leisure class is a regressive force that constrains the development of a market economy, and leads to the ultimate contradiction: between the lavish expenditure of the nobles and the starving mob. Again, far from having a cultural autonomy, the lifestyle of the leisure class is counterposed and intimately linked with the production problems of the French agricultural sector. Here too the theory of conspicuous consumption is applied in a way that resembles a Marxian approach to studying the history of economic analysis, grounded in the material transformations, which took place before the French Revolution.

Conspicuous consumption is also conspicuous by its absence in some aspects of orthodox economics following the French Revolution. Whether or not one adheres to Marx's assessment that the French Revolution involved a conscious takeover by the new bourgeoisie, the physiocratic inspired emphasis on production became inarguably prominent in orthodox economics. As shown by John F. Henry in his essay, "Say's Economy" (2003), Jean Baptiste Say, one of the founders of orthodox economics (the French Adam Smith), was a staunch supporter of the Revolution, and a critique of the vices associated with luxury consumption. Say developed his law of markets under which (in its most simple form) demand is made possible by production: productive supply creates the potential for demand. Under this productionist approach, Veblen's theory of conspicuous consumption seems to lose its relevance, relative to its analytical power in explaining the ancien régime. Capitalism is not driven by a royal court, extending its web of privileges to its subdued subjects. As Veblen argues, the culture and magic of the aristocracy may still have an important role in driving cultural tastes in a capitalist setting—capitalists still buy country estates that ape the lifestyle of the traditional aristocracy—but this is not the main driving force of economic change under capitalism. It is the productive activity of capitalists that drives the system rather than the symbolic consumption of the aristocracy underpinned by a royal court. Veblen's theory of conspicuous consumption is not critical to the *differentia specifica* of capitalism; it is not key to defining what is specific to capitalism as system, relating more to the peculiarities of feudalism than the capitalist epoch. With regard to capitalism it might be concluded that conspicuous consumption is a relatively weak theory, its main relevance being to earlier modes of production.

This argument is of course confined specifically to the theory of conspicuous consumption, and might be distinguished from Veblen's other writings where capitalism is explicitly considered—as exemplified by Veblen's (1904) *Theory of Business Enterprise*. John F. Henry (2011) has, for example, highlighted the similarities with Marx in Veblen's analysis of the relationship between captains of industry and workers, and in taking seriously the role of money under capitalism. Furthermore, Marx and Veblen "were not only critical of capitalist society, but also wanted to see it destroyed and replaced by a quite different social order that was claimed to be superior to capitalism" (Henry 2011, 72). A task for future research is to understand how social phenomena such as conspicuous consumption, that are not specific to capitalism, can be combined with an analysis of specifically capitalist structures.

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7 Veblen on economic method

A critical note

Gary Mongiovi

Introduction

John Henry was the discussant for the first conference paper I ever presented. In 1981, early in my career, I delivered a paper entitled "The American Methodenstreit" at the annual meeting of the History of Economics Society. I say "early in my career," but in truth this was long before I had anything remotely resembling a career. John could not attend the conference, but he sent his comments to the session participants ahead of time, and they were read aloud by our panel chairman. I'm sure John knew that my paper was the work of a person in the formative stages of his intellectual life. His comments were encouraging though critical in spots, and the criticisms were constructive and gently phrased.

My paper examined a heated debate that preoccupied American economists between 1880 and 1910, concerning the appropriate method of economic analysis—the question of whether economics was essentially a deductive or an inductive science. It is now difficult to see how this question could have been a matter of serious contention among economists, and one of my aims was to explain what underpinned the controversy. I argued that the dispute was in fact the surface manifestation of a more fundamental disagreement between economists who believed that the prestige and influence of their discipline were closely linked to its status as a field of scientific inquiry, and those who saw economics primarily as an instrument of progressive reform. The advocates of the first view eventually carried the day, and the social reformers were forced to moderate their sometimes evangelical rhetoric in order to preserve their professional respectability. On the methodological issue, a compromise was reached in which both deduction and induction were acknowledged to play indispensable roles in advancing economic understanding (see Mongiovi 1988). The paper touched upon economic methodology, on the tension between orthodoxy and dissent that has been a feature of economic discourse since the middle of the nineteenth century, and on the role that ideology plays in the formation of economic ideas—themes that run through John Henry's many writings (see, for example, Henry 1983–1984, 1990, 1995a, 1995b, 2009).

When I wrote about the American Methodenstreit in 1981 I had a strong interest in the writings of Thorstein Veblen, and a strong sympathy toward them. The paper was drawn from a master's thesis I had written at New York University under the supervision of James Becker, a Marxist, and the Austrian School luminary, Israel Kirzner. I had written an essay about Veblen for Kirzner's history of economic thought course. I was beginning my doctoral studies at the New School for Social Research, with the vague intention of following a line of study that would reflect Veblen's approach, which I understood to have two defining features: (1) an insistence that economic analysis ought to focus on the evolution of institutions and on how those evolving institutions reshape habits of thought; and (2) the conviction that static equilibrium models are of little use for understanding socioeconomic reality. But while working on my MA I had the good fortune to take a course taught by Harvey Gram that exposed me for the first time to a systematic and sympathetic treatment of Sraffa-type linear production models. These models intrigued me; the Sraffian ideas continued to percolate in my mind and were reinforced by the lectures of John Eatwell and Edward J. Nell at the New School. I soon drifted away from Veblen, eventually abandoning him altogether in favor of a theoretical framework grounded in the work of Marx, Sraffa, and Keynes. Over a fairly short period of time I came to think that Veblen's approach was an analytical dead-end.

A celebration of John Henry's contributions to our discipline seems an opportune occasion to revisit Veblen's writings on neoclassical economics and Marx, for these writings engage with issues that continue to spark controversy among non-mainstream economists.

Veblen's theoretical outlook

Veblen, according to John Maurice Clark (1929, 742), was in his day "the leading influence of the intellectual generation immediately succeeding the founding of the American Economic Association." Yet his ultimate impact on economic thought, both mainstream and radical, has been relatively minor. Most economists are familiar with Veblen only to the extent that they can connect his name to the idea of conspicuous consumption, and even among non-mainstream economists, only a handful of scholars are now working along lines that directly build upon his ideas. Veblen's lack of influence is no doubt due in part to the intractability of his theoretical framework, which cannot be reduced to a neat set of behavioral equations and equilibrium conditions. By the time he had begun to write about economic topics—in the 1890s—the discipline was well along in a process of confining its scope largely to the elucidation of the price mechanism. Veblen, in contrast, embraced a broad interdisciplinary approach that involved the application of anthropological, sociological, and psychological insights to the study of economic life—which, he maintained, cannot in any case be detached from these other dimensions of social existence. He was highly mistrustful of equilibrium models that depict economic activity as a mechanistic process; he appears never to have made use of quantitative data to support any of his theoretical claims; and he eschewed mathematical formulations of economic activity.[1]

Veblen's prose is dense, his arguments painstakingly nuanced. Very little of what he wrote can be distilled into simple testable claims about how a well-defined set of socioeconomic variables are connected to one another. His work is in a sense *sui generis*, hence an unlikely foundation upon which to build a unified school of economic thought. Still, Veblen did develop a theoretical system of sorts, and its essential elements can be described. His starting point is the premise that human behavior is conditioned by habits of thought.

Traditional habits of thought, he maintained, come about as a result of instinctual behavior. Veblen argued that changes in habits of thought are shaped by changes in technology—by changes in the way people get things done. Technological change in turn is a consequence of basic instinctual drives, notably idle curiosity (the desire for knowledge for its own sake) and the instinct of workmanship, or the desire to undertake productive activity and perform it efficiently. Traditional habits of thought come under pressure from new ones spawned by the emergence of new technologies; old patterns of social provisioning are further eroded as the habits of thought which buttress them are displaced. Thus old forms of socioeconomic organization and old habits of thought give way to new patterns grounded in more advanced methods of production (see Veblen 1914; a good exposition is provided by Walker 1977). It is difficult not to see in this echoes of Marx's theory of history, in which changes in the mode of production transform the ideological and institutional superstructure of the socioeconomic system (see Marx and Engels [1846] 1947).[2]

Veblen's clearest expositions of his analysis of capitalism may be found in three of his books: *The Theory of the Leisure Class* (1899c), *The Theory of Business Enterprise* (1904), and *Absentee Ownership and Business Enterprise in Recent Times* (1923). At the heart of the analysis is a sharp distinction that Veblen draws between "industry" and "business enterprise." Industry is truly productive and results in the efficient creation of socially useful goods. Business enterprise, in contrast, is concerned with what Veblen calls pecuniary accumulation—the amassing of monetary wealth—rather than with economic efficiency and output maximization. Throughout the latter half of the nineteenth century, critics of capitalism had expressed alarm at the increasing concentration of capital and the tremendous power of business enterprise that goes with it. These concerns may have been well founded, but they ran to ground against the conventional perception of market capitalism as a system of unprecedented efficiency and productive capabilities. Veblen argued that this perception was an illusion; he "formulated a unique refutation of the corporate ideology of concentration, one that argued the case against capitalism in terms of its own claims of efficiency and productivity" (Diggins 1978, 5). That is, he contended that capitalism is inefficient and restricts production.

Since in primitive societies the survival of the group depends on each individual making a productive contribution, work is considered a noble activity, and effective workers are admired and emulated. When society achieved a level of economic development that enabled the production of a surplus, an embryonic leisure class emerged which acquired its livelihood not through productive activity like farming, but through predatory or ceremonial activities such as warfare or priestly duties. The institution of private ownership arose from the collection of trophies of conquest, such as slaves, beasts of burden or weapons. Status accrued to an individual in direct proportion to the number of trophies he possessed, for they were symbols of his predatory prowess. As this rudimentary leisure class gained status, productive labor lost esteem and work came to be viewed as irksome and degrading.

Veblen saw the industrial capitalists who comprised the leisure class of the nineteenth century as the spiritual descendants of the ancient warriors who made their living not through productive work but by conquest. Conspicuous consumption is the trophy of the affluent. The analogy is not inapt: capitalism was, and remains, a brutal and predatory system, and the ultimate objective of the capitalist is not maximal production but the accumulation of financial wealth. Here again we see parallels with Marx.

Marx ([1867] 1967, ch. IV) had of course observed that the aim of capitalist commodity production is to transform a sum of value in the form of money into a larger sum of monetary value ($M–C–M'$), whereas in precapitalist societies the aim of production is consumption, that is, to transform a set of commodities that have no use-value to their producers into a different set of commodities that do have use-value to their producers ($C–M–C'$). Veblen, who appears not to have noticed this correlation between his own theoretical views and those of Marx, in fact went somewhat further than Marx, contending that capitalists actively strive to restrict production. According to Veblen there is a direct conflict between the capitalist's profit motive and productive efficiency. The capitalist has incentives to raise prices through the restriction of output, to engage in economically disruptive competitive practices for the sake of expanding his market share, and to squander resources in unproductive marketing activities. Rather than functioning as a coordinator of resources who facilitates the maximum production of goods and services, the capitalist has become the saboteur of production:

> Addiction to a strict and unremitting valuation of all things in terms of price and profit leaves [the capitalists], by settled habit, unfit to appreciate those technological facts and values that can be formulated in terms of tangible mechanical performance.... They are unremittingly

> engaged in a routine of acquisition, in which they habitually reach their ends by shrewd restriction of output; and yet they continue to be entrusted with the community's welfare, which calls for maximum production.
>
> (Veblen 1921, 40)

Veblen furthermore argued that the pecuniary motive gives rise to depressions, for it creates a tendency for business firms systematically to overproduce, a tendency which culminates in depressed prices, cut-throat competition and bankruptcies. (He neglected to notice the inconsistency between this scenario and his contention that capitalist business enterprise suppresses production.) Finally, Veblen (1915, 31) argued that much of the production that occurs within modern capitalism is wasteful:

> The normal result of business control of industry ... is the accumulation of wealth and income in the hands of a class. Under the well-accepted principle of "conspicuous waste" wealth so accumulated is to be put in evidence in visible consumption and visible exemption from work.

Capitalism, he contends, exhibits a tendency to produce "vendible" rather than "serviceable" goods, by which he means that the system directs resources to the production of goods that don't satisfy genuine human needs. Thus, conspicuous consumption must be understood as an aspect of the conflict between the pecuniary and productive impulses operating within the market economy.

All of this is fascinating, and a good deal of it is plausible. But it is also speculative, mostly untestable in the Popperian sense, and of limited use as a guide to policy. In the last quarter of the nineteenth century market economies were confronting a vast array of disruptive large-scale problems associated with industrialization, urbanization, global competition, and the increasing concentration of capital. Economists wanted to play a key advisory role in the resolution of those problems, and that role rested crucially on the discipline's status as a science (see Furner 1975). Veblen's conception of social science was ambitious and in many respects compelling, but most of his economist contemporaries saw his approach as ill-suited to the practical task at hand.[3]

Veblen's methodological critique of orthodox economics

A comprehensive survey of Veblen's views on the orthodox economics of his day lies beyond the scope of this brief chapter. I shall offer instead a compressed account of his main criticisms, which he developed in a series of essays published between 1898 and 1909 (Veblen 1898, 1899a, 1899b, 1906a, 1909). Rereading these essays after thirty-five years, I am stuck by their verbosity. One must tease Veblen's message out of a dense tangle of prose that in younger days I found elegant and beguiling, but which now seems pedantic and convoluted.

Veblen puts forward two basic, and to some degree interconnected, criticisms. The first is that orthodox economics conceptualizes social existence in static terms. Second, the propositions of economics are teleological: they rest upon an implicit assumption that economic activity is propelled toward some pre-ordained end—essentially the maximization of utilitarian wellbeing. In the first essay in which he broaches these criticisms, Veblen (1898) poses the question: "Why is economics not an evolutionary science?" Implicit in the question is a presumption that economics *ought* to be an evolutionary science. Interestingly he does not make an explicit methodological case for why economics ought to be an evolutionary science. He merely observes that in the wake of Darwin's discoveries on natural selection, modern science has adopted an evolutionary approach and economics must follow suit. (Veblen appears to have in mind only the social sciences and biology; he never mentions physics or chemistry.) "Modern science" is evolutionary science; and economics, to the extent that it is not evolutionary, is "helplessly behind the times and unable to handle its subject matter in a way to entitle it to standing as a modern science" (373).[4]

In a later essay Veblen (1909, 621) does say that an evolutionary outlook is necessary because a static approach cannot capture the most salient features of social reality:

> To the modern scientist the phenomena of growth and change are the most obtrusive and consequential facts observable in economic life. For an understanding of modern economic life the technological advance of the past two centuries ... is of the first importance.

True enough. But when he adds that "marginal-utility theory does not bear on this matter, nor does the matter bear on marginal-utility theory," he contradicts an earlier statement that orthodox economists "fall short of the evolutionist's standard of adequacy, *not in failing to offer a theory of process or of developmental relation*, but through conceiving their theory in terms alien to the evolutionist's habits of thought" (1898, 376; emphasis added). My point is that Veblen doesn't offer a substantive defense of his methodological stance, other than to say that it is the only stance compatible with the outlook of modern science. This diffidence is consistent with Veblen's iconoclastic skepticism about all forms of knowledge; but it doesn't get us very far if we want to know why one particular methodological approach should be preferred over another.

As noted a moment ago, Veblen acknowledged that orthodox economics does address dynamic phenomena. But it does so, he argued, in a way that is out of step with the evolutionary way of thinking. That way of thinking starts from the idea that historical events and social phenomena move though time in a process of "cumulative causation," "an unfolding sequence" of cause and effect that has no predictable trajectory or end-point (Veblen 1898, 374–378). Economics, in contrast, remains anchored to a pre-modern mode of explanation in which some animistic mechanism is presumed to channel socioeconomic events toward an ideologically sanctioned end:

> The ultimate term in [economists'] systemization of knowledge is a "natural law." This natural law is felt to exercise some sort of a coercive surveillance over the sequence of events, and to give a spiritual stability and consistence to the causal relation at any given juncture. To meet the high classical requirement, a sequence [of events]—and a developmental process especially—must be apprehended in terms of a consistent propensity tending to some spiritually legitimate end. When facts and events have been reduced to these terms of fundamental truth and have been made to square with the requirements of definitive normality, the investigation rests content. Any causal sequence which is apprehended to traverse the imputed propensity in events is a "disturbing factor."
>
> (Veblen 1898, 378)

This animistic substratum is what troubles Veblen about orthodox economics: the discipline is grounded in a quasi-religious notion of causality.

Interestingly, Veblen never denied that economics is a science, perhaps because he recognized that all knowledge, including scientific knowledge, is to some extent socially constructed. In this he was far ahead of his time. His complaint is that economics is a science rooted in an outmoded pre-Darwinian epistemology. Economics is teleological; it has not wholly broken free of the idea that some spiritual force underpins social phenomena and directs these phenomena toward definite outcomes in accordance with "natural law." Hence there is a strong ideological element in the theory. This is most evident, he contends, in the writings of the classical economists up to the mid-nineteenth century:

> The standpoint of the classical economists, in their higher or definitive syntheses and generalizations, may not inaptly be called the standpoint of ceremonial adequacy. The ultimate laws and principles which they formulated were laws of the normal or the natural, according to a preconception regarding the ends to which, in the nature of things, all things tend. In effect, this preconception imputes to things a tendency to work out what the instructed common sense of the time accepts as the adequate or worthy end of human effort. It is a projection of the accepted ideal of conduct.
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> (Veblen 1898, 382; see also Veblen 1899a, 1899b)

Technological progress, because it gives rise to production processes that compel human beings to grasp the impersonal connections between cause and effect, promotes the adoption of matter-of-fact habits of thought, so that the mystical elements in our understanding of the world become attenuated over time (see Veblen 1906a). But some residue remains, and economics has been slower than other disciplines to shed these primitive habits of thought.

A brief digression might be in order here to scrutinize Veblen's contention that modern life obliges us to adopt a detached view of the world, whereas primitive society propagates myth, superstition, and mysticism. The connection between technological development and the emergence of dispassionate habits of thought may not be as straightforward as he supposed. For a start, the brute exigencies of survival require primitive societies to develop an acute ability to recognize the relation between cause and effect, at least in matters where error can have fatal consequences.

But perhaps more importantly, as society becomes more complex, there is greater scope for certain types of ideologies and illusions to gain traction. In ancient Rome, the Dark Ages, feudal Europe and aboriginal societies, the things that people believe about how deities and other mystical entities intervene in the world are not expressly contradicted by what people observe. If the tribe has a poor harvest, a fire destroys part of the village, or the monarch fares badly in battle, people suppose that the gods must be displeased for one reason or another. This may not be true, but nothing in the objective experience of the community explicitly contradicts that hypothesis. In contrast, modern societies are rife with beliefs that conflict with transparent fact: governments cannot create jobs; income distribution reflects the productivity of the factors of production; markets are efficient. Many economists think it entirely sensible to suppose that the behavior of individuals is grounded in preference sets that exhibit completeness, transitivity, and convexity. Others contend that Dynamic Stochastic General Equilibrium models describe how actual economies function, or that involuntary unemployment is an illusion. Supply and demand functions have no objective existence; they are intellectual constructs that economists project upon reality to make sense of what we do observe. Yet economists speak as though such functions are real in some concrete sense. We may live in a secular age, but "the miracle of the market" is a ubiquitous trope, even among economists who fiercely insist on their discipline's scientific pedigree. In economic discourse "parables"—notably the aggregate production function—are barely distinguished from real-world entities. Only the complexity of modern economic relations can enable such claims and modes of expression to acquire credibility.[5]

Veblen mistrusted equilibrium analysis because he saw in it trace elements of atavistic mystical thinking. The very concept of equilibrium, Veblen insists, presupposes a normative judgment about the appropriate ends of human activity:

> The question of tendency in events can evidently not come up except on the ground of some preconception or prepossession on the part of the person looking for the tendency. In order to search for a tendency, we must be possessed of some notion of a definitive end to be sought, or some notion of what is the legitimate trend of events. The notion of a legitimate trend in a course of events is an extra-evolutionary preconception, and lies outside the scope of an inquiry into the causal sequence in any process.
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> (Veblen 1898, 392)

The focus of economic analysis, Veblen believed, should be on the developmental process, which has no definitive endpoint. He elaborated this idea in his critique of marginal utility theory (1909).

Veblen's principal objection to marginal utility theory is that it ignores the essentially fluid nature of economic life as an unfolding process of institutional change:

> Marginal-utility theory is of a wholly static character. It offers no theory of movement of any kind, being occupied with the adjustment of values to a given situation. [No economists working] in this line of research have yet contributed anything at all appreciable to a theory of genesis, growth, sequence, process or the like in economic life.
>
> (Veblen 1909, 620)

Orthodox economics takes for granted precisely what Veblen believes it ought to explain—the evolving institutional structure of society:

> The cultural elements involved in the [orthodox] theoretical scheme, elements that are of the nature of institutions, human relations governed by use and wont in whatever kind and connection, are not subject to inquiry but are taken for granted as pre-existing in a finished, typical form and as making up a normal and definitive economic situation, under which and in terms of which human intercourse is necessarily carried on.... The cultural elements so tacitly postulated as immutable conditions precedent to economic life are ownership and free contract, together with such other features of the scheme of natural rights as are implied in the exercise of these. These cultural products are, for the purposes of the theory, conceived to be given a priori in unmitigated force. They are part of the nature of things; so that there is no need of accounting for them or enquiring into them, as to how they have come to be such as they are, or how and why they have changed and are changing, or what effect all this may have on the relations of men who live by or under this cultural situation.... The wants and desires, the end and aim, the ways and means, the amplitude and drift of the individual's

> conduct are functions of an institutional variable that is of a highly complex and wholly unstable character.
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> (Veblen 1909, 623–624, 629)

By "wholly unstable" Veblen evidently means that the institutional scaffolding of society is always in flux, always in the process of being dismantled and reconfigured. The subject matter of economics should be the illumination of this process.

It is of course true that history unfolds in a process of cumulative causation, perpetually transforming itself, never settling into a static equilibrium. No sensible person could deny this, and no economist, neoclassical or otherwise, ever has. It is equally true that the issues Veblen raises here are important and fall within the proper scope of economics. Part of the task of the economist is, or at any rate ought to be, to explain the forces which shape the institutions, attitudes, tastes, and practices that impinge upon, and indeed constitute, economic life. But Veblen's conception of social science is, in its own idiosyncratic way, excessively restrictive: it pushes to the margins other important issues that rightly fall within the scope of economics. Every theoretical inquiry must start somewhere; some things must be taken as given, for no theory can explain everything. Yes, we ought to be interested in the forces that mold what Veblen calls the "cultural context." But those forces ought not to be the only object of our analysis. How institutions emerge, evolve, and decay is a useful and important question; but it is not the *only* useful question.

We may want to understand how prices are formed, for example; or how prices, technology, and income distribution are connected to one another; or what regulates the levels of aggregate output and employment; or what affects the growth rate of the economy; or why business cycles occur and what determines their properties. These issues matter precisely because they form part of the evolving institutional structure that Veblen argues ought to be the focus of attention. And in investigating these issues there can be no practical objection to supposing—to taking it for granted—that we are dealing with a market economy which is characterized by freedom of contract, a given regulatory framework, a particular tax code; an economy with particular conventions regarding labor force participation, populated by individuals with particular propensities to save and consume; and so forth. It cannot be incumbent upon the theorist to broach the question of the "cultural context" whenever he ventures to investigate a particular economic problem. The fact that the natural world, no less than the social world, is ever in flux does not prevent biologists from studying an ecosystem as a going concern.

Static equilibrium analysis, sensibly applied, can be of considerable use in elucidating the very process of cumulative causation that Veblen placed at the center of his analysis. Market societies, like ecosystems, exhibit regularities and balancing tendencies. They hang together because, at least most of the time, they manage to achieve a reasonable degree of coordination among economic actors. Goods are produced not in haphazard quantities, but in amounts that roughly align with the pattern of demand. Resources get transferred out of some sectors and into others in reaction to changes in the composition of demand. Consumption spending and investment spending absorb a good part of what the system produces. No doubt a good deal of dis-coordination is intermixed with the mechanisms that enable the system to hang together. Yet the system does hang together, does reproduce itself. Understanding how it does that is, first of all, indispensable to understanding how institutions emerge, break down and get replaced by new institutions; for that evolutionary process occurs within the context of the coordinating mechanisms. Second, understanding those coordinating mechanisms is essential to the design of solutions for the many dysfunctions of the market system.

It is difficult to see how we might explain the coordinating properties of markets without conceiving of markets as mechanisms with certain gravitational tendencies (see Mongiovi 1994, 2000). Veblen, though, explicitly rejects the idea that equilibrium analysis might shed light on socio-economic phenomena:

> The evolutionary point of view … leaves no place for a formulation of natural laws in terms of definitive normality, whether in economics or in any other branch of inquiry. Neither does it leave room for that other question of normality, What should be the end of the developmental process under discussion?
>
> (Veblen 1898, 392)

Here I think Veblen overreaches. When an economist puts forth some proposition about what regulates the ratios at which goods exchange for one another, or about how relative prices and distribution are connected, he is not as a rule presuming anything about "the legitimate trend of events." He is offering a plausible and empirically testable hypothesis about how some aspect of social reality operates, as part of a larger account of how a market economy fulfills its provisioning function. In undertaking this sort of analysis the economist is no more engaging in a teleological exercise than a physicist is exhibiting a "spiritual" point of view when she hypothesizes that bodies with mass attract one another in conformity with a particular constant of gravitation. The economist's hypothesis may or may not be correct, but it is not intrinsically teleological in Veblen's sense.[6]

One difficulty with Veblen's stance is that it leaves us with no reliable way to assess the soundness of a particular hypothesis about what regulates prices or distribution or the economy's growth rate; for he regards such questions as problems of static analysis, hence uninteresting. But these are important questions, and cannot be fully understood without the application of formal methods of analysis. Moreover, formal models can expose problems with a particular intuitive account of an economic process. A striking case in point is the exposure, through the capital theory debates of the 1960s, of serious defects in the orthodox theory of income distribution. The problem with neoclassical economics is not that it is teleological or non-evolutionary, but that it is a poor account of what it purports to explain. If it was a sound theory, it could accommodate the kind of cumulative causation analytics that Veblen advocates.[7]

Veblen, classical economics, and Marx

This brings us to an aspect of Veblen's outlook that I now find particularly problematic—his failure to see any substantive difference between the post-1870 marginalist theory and the classical-Marxian political economy tradition. Veblen repeatedly equates the marginalists and the classicals:

> The marginal-utility school is substantially at one with the classical economics of the nineteenth century, the difference between the two being that the former is confined within narrower limits and sticks more consistently to its teleological premises. Both are teleological.… Neither can deal theoretically with phenomena of change, but at the most only with rational adjustment to change which may be supposed to have intervened.
>
> (Veblen 1909, 621)

Veblen, in short, viewed the marginalist school as "but a branch or derivative of the English classical economists of the nineteenth century" (1909, 622). In coining the term "neoclassical" to describe the orthodoxy that emerged in the closing decades of the nineteenth century, Veblen very pointedly meant to suggest that the marginalist approach was but a "specialized variant" of the older classical tradition. Veblen here makes the mistake of defining a theoretical framework solely in terms of its analytical method; he equates classical and neoclassical economics because they both utilize the long-period equilibrium method that he dogmatically rejects. He fails to notice that the two approaches provide very different accounts of how market economies function.

In the aftermath of the publication of Piero Sraffa's *Production of Commodities by Means of Commodities* (1960), a substantial body of literature has emerged which makes a persuasive case that the theoretical framework of the classical economists and Marx was fundamentally different from the marginalist theory (see Garegnani 1984). The key point of difference lies in how the two perspectives approach the analysis of distribution. The neoclassical theory explains income distribution in terms of the interaction of prices-elastic demand and supply functions for the factors of production; this approach has been discredited by the capital critique stemming from

Sraffa's work. The classical-Marxian approach explains the distribution of income as the outcome of conflict among social classes in particular institutional and historically conditioned circumstances. As Sergio Levrero (2014) has compellingly argued, the classical-Marxian theory provides wide scope for the incorporation of precisely the sort of historical and institutional analysis that Veblen and other institutionalists advocated.

Veblen's ambivalence toward Marx is particularly difficult to understand, for there are obvious affinities between the analytical outlooks of the two men (see Rosenberg 1948; O'Hara 2000; Henry 2002a, which reviews O'Hara).[8] Marx certainly dealt with change as an organic process driven by the internal dynamics of the capitalist system. Indeed, there is a sense in which Marx treats the evolution of society more organically than Veblen does. Veblen took orthodox economics to task for treating change exclusively as an adjustment to some ad hoc variation in the conditions which define static equilibrium. In Veblen's system changes in technology are the stimulus to structural evolution. But he doesn't have a systematic theory of technological change: new technologies are manifestations of the instinct of workmanship, which he posits as a fundamental human instinct, but the innovations emerge randomly much like the mutations in traits that mold the process of natural selection. Thus, technological change enters into Veblen's own account of evolutionary change in an ad hoc way, much as it does in the conventional theories he criticized—whereas Marx explains technological change as an embedded feature of the logic of capitalist development (see Marx [1867] 1967, ch. XV).

Veblen (1906b, 1907) deemed Marx's theoretical system to be just as teleological as the theoretical systems of the classical and marginalist schools. Where the orthodox schools, according to Veblen, suppose that market forces push events toward a utilitarian optimum, Marxian economics has as its endpoint a communist utopia; thus, he argued, both the orthodox and the Marxian frameworks are grounded in teleological preconceptions. Furthermore, Veblen argued, the Hegelian dialectics that were Marx's starting point are teleological, for they have an endpoint—synthesis. Modern science requires that the dialectic be displaced by a non-teleological Darwinian outlook. Veblen emphatically rejects the Marxian idea that history has a "logic": actual social systems are open-ended, hence their historical trajectories cannot be predicted.[9]

But this misunderstands Marx's theory of history. Marx did not conceptualize history as an inevitable path toward a predetermined end. In a perceptive essay on "Marx and Determinism," Howard Sherman (1981) argues that we should distinguish between a rigid fatalism that assigns no meaningful role to human agency or historical accident, and a sensibly cautious scientific determinism. Marx's theory recognizes that history is the cumulative result of human choices, but that these choices are constrained by the social, institutional, and economic context in which they are made; hence, while they cannot be said to lead ineluctably to any particular outcome, they nevertheless unfold according to certain rules, and they exhibit patterns and regularities. Marx hypothesized that any socioeconomic system is propelled through history by the contradictions generated by its production relations. This hypothesis may be subject to debate, but it is not mechanically teleological. On the contrary, it is a way to render the evolutionary approach capable of making useful concrete theoretical statements about how history unfolds. The Social Structures of Accumulation approach represents a non-teleological application of the Marxian theory of history to derive practical insights into how modern capitalist economies evolve historically (see Kotz *et al.* 1994).

Conclusion

Thorstein Veblen was an astute and original early critic of neoclassical economics. He also leveled some pointed barbs at the economics of Karl Marx. His complaint against these approaches is that they do not address the problems that he finds interesting. Until the 1930s, Veblen's work offered perhaps the most trenchant challenge to neoclassical orthodoxy. But the rise, first, of Keynesian economics, and then of several other dissenting and sometimes overlapping traditions—including Post-Keynesianism of various stripes, a resurgent and technically sophisticated Marxian approach, and the Sraffian camp—puts at our disposal a powerful set of analytical tools that not only expose the weaknesses of orthodoxy but point the way to viable alternatives to that orthodoxy. Veblen could be an insightful critic, but he was less successful at formulating a systematic account of how market economies reproduce themselves, allocate resources and evolve. His work is furthermore not well designed to guide policy in a complex modern economy. This is partly a consequence of his wholesale rejection of the equilibrium method, a device which can be of immense use in understanding how market forces drive processes of historical and social change.

Acknowledgments

Discussions with Enrico Sergio Levrero and John Henry have helped me to clarify my thinking on some of the issues explored here; I offer my thanks to both of them. I am grateful also to Tae-Hee Jo for useful editorial and substantive comments. I dedicate this chapter to the memory of my friend Robert E. Prasch, whose love of comradely debate has been an inspiration to me for three decades.

Notes

1 Veblen claimed to have "once solved some simple problems in algebra, but he did not know how he accomplished the task" (Dorfman 1947, 32).

2 For Marx, class conflict is the engine of historical change. Veblen, too, recognized that class conflict shapes the process of cumulative causation, though for Veblen what drives the process is technological change stimulated by the instinct of workmanship.
3 Indeed, Veblen suggests that theoretical economics does the most damage, or at any rate is least helpful, precisely when it purports to guide practical action. Writing of the deductive method of theoretical economics he remarks that:

> The outcome of the method, at its best, is a body of logically consistent propositions concerning the normal relations of things—a system of economic taxonomy. At its worst, it is a body of maxims for the conduct of business and a polemical discussion of disputed points of policy.
>
> (Veblen 1898, 384)

4 At the end of the piece he in fact goes out of his way to avoid claiming that the evolutionary method is epistemologically superior in any objective sense:

> The [evolutionary] method of apprehending and assimilating facts and handling them for the purpose of knowledge may be better or worse, more or less worthy or adequate than the earlier; it may be of greater or less ceremonial or aesthetic effect; we may be moved to regret the incursion of underbred [i.e., the relatively new evolutionary] habits of thought into the scholar's domain. But that is all beside the point. Under the stress of modern technological exigencies, men's every-day habits of thought are falling into the lines that in the sciences constitute the evolutionary method; and knowledge which proceeds on a higher, more archaic plain is becoming alien and meaningless to them. The social and political sciences must follow the drift, for they are already caught in it.
>
> (Veblen 1898, 396–397)

5 John Henry has pointed out to me a crucial distinction between ancient illusions and the illusions of modern economists. The illusions of primitive societies do not interfere with the ability of those societies to deal with problems. Nor were they designed to conceal reality; they substitute for ignorance. Modern illusions, in contrast, are often designed to obscure reality for the benefit of the ruling class; on this, see Henry (2009). On the parallels between economics and religion, see Nelson (2001) and Henry (1995b, 2002b).
6 Henry (1983–84) presents a critique of equilibrium analysis from a Post-Keynesian Institutionalist perspective. There are many points of overlap between his argument and Veblen's perspective.
7 Veblen, curiously enough, seems hesitant to suggest that the orthodox theory is *wrong*—that its propositions do not align with observed reality. It merely asks the wrong questions.
8 John Henry has reminded me that Veblen's antipathy toward capitalism was in some respects more virulent than Marx's.
9 Hodgson (2006) takes a similar unsympathetic stance toward Marx's method. For a critique of Hodgson's argument, see Mongiovi (2008).

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Part II

Heterodox economics

Alternative critical theory to the status quo

8 The “illusion” or “paradigm blindness” of economics

Ethical challenges to economic thought from the financial crisis

Robert McMaster

> The ideas of economists and political philosophers … are more powerful than is commonly understood. Indeed the World is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist.
>
> (Keynes 1936, 383)

Introduction

John Henry (2009) powerfully argued that the dominance of neoclassical economics obstructs criticisms of its particular “vision” of the economy and the reality of capitalism. Henry advocates the need for history of economic thought to provide students with the ability to appreciate the “neoclassical apparatus” as a “political statement.” Henry has long maintained that ideas are socially constructed and disseminated in such a way as to retain the dominance of a particular class. Challenges to the prevailing set of legitimate ideas are resisted. The default favors the status quo. Henry states: “No society, regardless of the form of its organization, has ever permitted freedom of ideas” (Henry 1990, 7).

In this belief Henry associated the freedom of ideas with a more overarching emancipatory claim. Freedom of ideas enables a more effective challenging of the dominant class. At a less abstract level, this chapter argues that Henry’s broad argument resonates with George DeMartino’s (2011a) eloquent observation that economics and economists “routinely affect the life chances of others,” and as such there is a need for a professional ethics in economics. For many the financial crisis represented a salutary moment for the economics profession, although as, for example, Hodgson *et al.* (2009) argue, the response has not necessarily been convincing in terms of critical reflection or on the need to reform the teaching of economics. Indeed, nothing fundamental has changed in the nature of contemporary mainstream economics (Mirowski 2013), or the tenor of the dominant approach to economic policy.

DeMartino’s advocacy of an ethical code in economics is compelling. It challenges the ethics of economic practice and the practices of economists.

Yet, like the architecture of the financial system that precipitated the crisis, the citadel of the mainstream in economics remains largely intact. Certainly, John Davis (2011) argues that *homo economicus* as a doctrine to some extent resembles fundamentalism in religion—that is, Henry's political apparatus—and hence is a barrier to pluralism and a source of "paradigm blindness" (for example, Fischbacher-Smith 2012). In this chapter I argue that the extension of DeMartino's (2011b, 42) association of "professional responsibilities attending economic practice" to teaching and curriculum design is a fundamental duty of care. The teaching of economics is the most obvious means of reproduction and therefore in perpetuating the inherent paradigm blindness of the standard approach with its attendant disregard for pluralism—Henry's political apparatus. The duty of care advocated here echoes Henry's call for economics programs to expose students to alternative schools of thought as a means of liberating students and therefore future economists, and by extension wider society.

There is some speculative discussion over whether an explicit ethical code recognized as a duty of care could potentially act as a source of relegating the false prophets of mainstream economics and in affording economists the opportunity to practice economics in a more ethical fashion, and therefore be more adroit in recognizing what Henry terms as the "illusions" of the standard faith.

The remainder of the chapter is structured as follows. The following section outlines and discusses Henry's notion of the social origin and dissemination of ideas. The third section briefly considers the financial crisis and its impact on mainstream economics. From here, drawing from DeMartino's work, the case for a more ethical economics is outlined. Then care theory in the context of economics pedagogy is set out. A brief conclusion follows.

John Henry on the power and suppression of ideas

In his discussion of the generation of ideas, Henry draws from Marx, the pragmatist tradition associated with John Dewey and Charles Sanders Peirce, as well as nineteenth-century evolutionary thinker, Lewis Henry Morgan. In a key passage Henry (1990, 2) writes:

> People are necessarily the product of society and, thus, of social organization. Society produces the environment in which individuals are born, educated and acculturized. There is no record of an individual raised apart from society who managed to develop into a thinker.

For Henry, like Dewey, knowledge is socially constructed. Individuals possess an innate ability to acquire knowledge, but require interactions with others to develop this capacity. Devoid of human interaction, an individual has no means of apprehending ideas about society or nature. In this respect society is enabling of an individual's capabilities. In other words, the individual is socially embedded; individuals are partly constituted by institutions and partly constitute institutions (Hodgson, 2004). On this, then, Henry shares the *zeitgeist* of original institutional economics.

With its emphasis on evolution, original institutional economics argues that as society evolves so will knowledge. Indeed, the works of Dewey and Peirce show that knowledge is not some sort of stock, but an ongoing dynamic process. Accordingly, knowledge can never be complete—it is fallible. Ideas and knowledge then are, to some extent, shaped by the institutional environment. These are important points worthy of further exploration.

Notably, Dewey and Peirce contend that science (as a sub-set of ideas) is guided by values, and philosophy has a key role in analyzing how satisfactorily those values are justified: philosophy and methodology are inherently normative enterprises (Dewey 1981; Peirce 1955). Thus, science—and in Henry's terms, the generation of ideas—emerges and evolves in a social context imbued with an array of particular values. These values provide a legitimizing function that establishes an evolving boundary between what is acceptable and what is not. Dewey (1981) describes this in terms of "warranted assertibility," i.e., the epistemic warrant is only ever partial, and evidence can only be supportive and never conclusive. Of course, this invites speculation about the appropriate means of judging the power of evidence and appropriate methods. There is an extensive literature on this. Henry takes an overarching view of the forces shaping scientific investigation. He is dismissive of what he terms the "idealist position," which he portrays as expressing the belief that the development of ideas is independent of the social domain, and resides solely in the individual. As well as socially dislocated, Henry views this as profoundly ahistorical, as it places history as a "compendium of accidents" (Henry 1990, 2); therefore, completely discounting the possibility of evolutionary paths and cumulative causation. By contrast, Henry advocates a materialist perspective:

> Ideas (and, therefore, ideologists) are the product of social forces, and that they mirror or reflect social reality, attempting either an explanation or an obfuscation of that reality.
>
> (2)

And,

> For ideas to be viable, to have significance, they obviously must be transmitted as well as developed. And it is the social process of dissemination that creates the greatest force in the power of ideas.
>
> (4–5)

From here Henry promotes his thesis that the prevailing value system is heavily influenced by the dominant class in society. The power of ideas, therefore, is most usually supportive of this class's continuing supremacy, and indeed, in Marxist terms, supports the reproduction of prevailing relations. Henry uses the examples of the papal resistance to Copernican theory that the Sun, as opposed to Earth, was the center of the universe. This resistance was based on the challenge to divine authority vested in the Pope presented by Copernicus. Under the accepted view, Earth was the center of the universe, the Church was the center of Earth, and the Pope by virtue of his leadership of the Church, was vested with divine power. By marginalizing the position of Earth in the universe, Copernicus undermined papal authority and the position of the Church in what was believed to be the natural order of things. Henry documents how the Church resisted this by impeding the dissemination of the Copernican approach, and also imposed its will through the power of the Inquisition and feudalistic land ownership. Consequently, it took centuries for Copernican theory *not* to be regarded as heresy.

Henry further highlights the persistence of slavery through ideas of race as well as controls on the dissemination of information. He uses examples from the Ancient Greeks and the Conquistadors to demonstrate how slavery was justified in terms of the inferiority of the class of slaves. Slave-owners were thus vindicated in their role: the ownership of an individual was seen as benefiting both owner and slave. Henry discusses this in terms of fraud, which he describes as "[s]ocially organized, conscious deceit" (Henry 1990, 10).

The promulgation of ideas (and ideology) and therefore the framing of scientific investigation is shaped and legitimated by a range of institutions that support the continuance of the prevailing relations of the production system, and hence are vested in favor of a specific class—whether this is slave-owners, feudal landlords, or capitalist corporations. Henry's claim that deliberate deceit—fraud—is frequently central to the persistence of such arrangements is a strong one. He sees fraud as serving a class function, and manifesting through the means of disseminating ideas. Given that individuals are partially shaped by their institutional environment there are constraints on what may be considered to be legitimate ideas and epistemic warrant.

Therefore, given the constraints imposed upon the generation and dissemination of ideas, and hence scientific knowledge, Henry's analysis suggests a dilution of creativity, and an inability to think beyond certain boundaries. Of course, such a description invites comparison with Thomas Kuhn's (1996) notion of scientific paradigms. The commitment, even devotion to a set of central tenets has the potential to color judgment and narrow the scope of analytical framing. In effect, there may be "paradigm blindness" (Fischbacher-Smith 2012) to alternative means of thinking and ideas. In short, paradigms are how we see the world.

Henry (2008, 2009) applies his contention to neoclassical economics. He describes neoclassicism as the dominant mainstream in economics; citing its central tenets as *homo economicus*, equilibrium analysis that is ahistorical, a market-centric approach, among others. Importantly, Henry maintains:

> The starting point for this program (neoclassicism) is the elimination of society, relationships therein and historical movement thereof. To accomplish this end, neoclassicism chooses as its focal point the relationship, not between individuals or classes, but of the individual to the economic good.
>
> (2009, 30)

In other words, the focus of economics is between an (isolated) individual and a thing, which is deemed to provide some benefit (in the form of utility). Thus, for Henry, the Benthamite utilitarian approach underpinning mainstream value theory renders the social dimension of an individual's situation irrelevant. The social roles of individuals—whether they are corporate managers, workers, teachers, unemployed, parents, etc.—have no bearing on an individual's behavior: *homo economicus* reigns supreme wherever and whenever. General law-like regularities are sought over time and space; infusing economic laws with a naturalistic ambience that disregards historical and spatial contingencies. The act of consumption, for instance, is the same regardless of social role and setting. Henry observes that the relationship between the individual consumer and the Brussels sprout is of more consequence to neoclassicism than the underlying values and social positions of consumers. In this way the neoclassical approach, Henry contends, readily lends itself to mathematization and deductive reasoning. The danger in this is that the asocial and ahistorical nature of neoclassicism is further reinforced. Henry (2009, 34) writes:

> Mathematics … develop[s] its logic on a non-social basis; its rules of behavior are independent of time and place; and, if properly undertaken, it does yield "absolute truths". What tends to get lost in the equational manipulation, however, is the reality that the mathematical "proofs" are just that—proofs that the internal logic of the argument is consistent, that the correct assumptions have been made to reach the desired conclusion.

By this argument, the focus for economics is not the interrogation of the reality of the economy and economic relations, but the demonstration of the mathematical truth of a particular model. Progression in economic thought is reduced to the modification of underlying mathematical assumptions and techniques. Reference to the world outside the model is incidental and unimportant.

For Henry (2008, 2009) the removal of social, spatial, and historical contingencies offers a further ideological dimension. With mathematical law-like regularities a ubiquitous reading of economic relations is portrayed. A highly mechanized self-equilibrating system facilitated by prices and markets is seen as the natural order of things. Deviations from this may be viewed precisely in such terms, deviance. Thus, capitalism—and by implication, capitalist relations—is in a general sense equated with the natural, and therefore market equilibrium is associated with harmony and desirability. The inequalities of capital relations are ignored. This promotes what Henry (2008) calls a "hard laissez faire" program of minimal government intervention connected with the Chicago School and that ilk. By contrast, "soft laissez faire" Henry associates with classical political economy, in general, and more specifically Adam Smith. "Soft" is distinguished from "hard" in that the former only had relevance in the context of wider social issues, such as justice, as opposed to efficiency. The "hard" approach commences from the market as the natural and efficient order, which is liable to be undermined by needless state intrusions. This offers a false prospectus, for Henry: the *hard laissez faire* system is predicated on a model of economic interaction, perfect competition, which cannot exist in reality. It solely presents an ideological mantra of "private good, public bad," and offers no practical policy beyond appealing to the vested interests of large-scale private producers.

In short then, Henry's contention is that the neoclassical paradigm as the mainstream in economics constructs an ideological façade that narrows the range of ideas which may be conceived as legitimate. Considerations of the historical, social, and spatial become non-economics and confined to lesser social sciences, by virtue of their lack of mathematical reasoning. They are no longer genuine economic concerns. To expand on Henry's case, the agenda then becomes an issue of colonization, as the superior reasoning of mainstream economics is applied to those "other" social sciences and social issues.

A possible challenge to Henry's perspective lies in the openness of the mainstream to "other" ideas. Far from suppressing ideas—the mainstream of economics embraces new ideas! Or so the story goes. Examples of the emergence of an allegedly more pluralistic mainstream include: the incorporation of game theory, which challenges the passivity of *homo economicus*, and the "desirability" of equilibrium solutions; new behaviouralism, which embraces the "irrationality" of human behavior, and new institutionalism, which identifies the key role of institutions in economic activity. Indeed, such is the alleged undermining of the central tenets of the neoclassical paradigm that David Colander (2002) famously speaks of the "Death of Neoclassical Economics." This may be case, but the evolution of the mainstream may be a little more nuanced than Colander's claim. Despite recent behavioral "turns," and other "innovations" there is some continuity with neoclassicism (Davis 2008), especially in the retention of equilibrium reasoning; individualism; the market as the institutional default; scarcity and choice as the entry point of analysis, and the ongoing disregard for historical contingency. There may also be attempts to incorporate (or import) insights from other disciplines, such as psychology on a selective basis, such that the core of the mainstream paradigm is protected; immunizing stratagems in Popperian terms. Moreover, mainstream innovations have been mainly confined to microeconomics; macroeconomics has retained the features of general equilibrium, particularly as the basis of its forecasting models (for example, Henry and Lee 2009). The efficient markets hypothesis, redolent of hyper-rationality, remains the center-piece of finance.

Certainly, the continuity of the mainstream paradigm became an issue in the period following the financial crisis in 2008. Phil Mirowski (2010, 2013) and James Galbraith (2009) have presented powerful critiques of the response of the economics profession to the crisis. This perspective rather lends weight to Henry's emasculation of ideas thesis. I turn to the financial crisis and economics in the following section. Before doing so it is important to emphasize that Henry views the mainstream in economics as stultifying and ideologically laden. He advocates pluralism in economics as a means of emancipating ideas and the dead-hand of neoclassicism, as well as affording the opportunity to study the real economy as opposed to a synthetic (mis)representation. In terms of promoting pluralism, Henry is a keen advocate of the history of economic thought in economics pedagogy. The sections, below, analyze this in the context of an ethical code for economists in the form of a duty of care.

The financial crisis and mainstream economics

The current financial crisis, which is frequently traced to the bankruptcy of Lehman Brothers in 2008, evolved from a systemic failure of private financial institutions to a sovereign debt crisis, especially in the Eurozone of the European Union. The complex web of the interdependencies of financial entities was starkly revealed with the contagion that disseminated swiftly from Anglo-American institutions. The "too big to fail" mantra correspondingly entered the lexicon of popular financial terminology. State agencies could not allow a domino effect of bankrupted institutions pose an existential threat to capitalism. In a policy that repeated the pattern of the late twentieth-century economic system, the liabilities of the private sector were socialized. The reasons for this catastrophic failure of financial capitalism are well documented and need not be rehearsed here. What is of relevance is the utter failure of mainstream economics, especially macroeconomics, to predict the crisis, and the palpable lack of convincing post-crisis explanation. This is particularly galling, given that, following Milton Friedman's famous dictum, the mainstream makes so much of predictive power, and moreover, just prior to the outbreak of the crisis major economic figures boasted of the success of the "great moderation" in terms of sustained growth and alleged stability.

Galbraith (2009) and Mirowski (2010, 2013) provide excoriating critiques of the response of mainstream economics to the crisis, and the paucity of their *ex post* ad hoc explanations. In his article, Galbraith contests the standard view that the financial crisis was not predictable. In tones redolent of Henry he argues:

> The reason is not that there has been no recent work into the nature and causes of financial collapse. Such work exists. But the lines of discourse that take up these questions have been marginalized, shunted to the sidelines within academic economics. Articles that discuss these problems are relegated to secondary journals, even to newsletters and blog posts. The scholars who betray their skepticism by taking an interest in them are discouraged from academic life—or if they remain, they are sent out into the vast diaspora of lesser state universities and liberal arts colleges. There, they can be safely ignored.
>
> (Galbraith 2009, 87)

Galbraith endorses Henry's argument of the power of ideas. By reducing discourse in standard economics to a cozy chat among like-minded gents with similar frames of reference and a common perspective—as demonstrated, for example, by the Post-Washington consensus—challenges to this were not tolerated. As Galbraith (2009, 86) terms it: "Economics was not riven by a feud between Pangloss and Cassandra. It was all a chummy conversation between Tweedledum and Tweedledee." Indeed, this remains the case today, with the economics and political establishments' embrace of austerity (Konzelmann 2014), and the almost total absence of challenges to this view from mainstream media outlets. Similarly, Hodgson *et al.*'s (2009) response to the letter sent to the British monarch by luminaries organized under the patronage of the British Academy (Besley and Hennessy 2009), observes that standard economics is driven by a quest for mathematical elegance and search for solutions to contrived puzzles, as opposed to economic reality. Again, such sentiments resonate with Henry's (2009) reservations over the pursuit of mathematical tractability in mainstream economics, and the assumption of the authoritative position of a "hard" science that this is presumed to facilitate.

Mirowski (2013) provides an interesting analysis of the response of mainstream economists to the crisis. In his view, whilst most mainstream economists are not willing to accept the culpability of (standard) economics, "many" concede that something has to change. It may be speculated that some economists may be concerned that the authoritative position of economics in society has been somewhat tarnished. There are, according to Mirowski, some notable exceptions to this, including; Robert Barro, John Cochrane, Eugene Fama, and Robert Lucas. Cochrane, for instance, has argued that the crisis—as manifest by extensive price crashes—was entirely consistent with both rational expectations and the efficient markets hypothesis. Mirowski dismisses such a view as an outright denial, and likens it to the delusions of a group called "The Seekers," who believed that they would be rescued by flying saucers just prior to a great deluge on a particular date in 1954. When the date passed without incident, the group initially withdrew from the media, and then after a short period re-entered the public arena with a renewed faith and a marginally revised dogma in the form of a different date.

For Mirowski, the responses of mainstream economists retain the same egregious pre-crisis doctrines. For instance, the same emphasis on prediction persists, despite the lamentable record of prediction in economics (Lawson 1997; Mirowski 2013). Yet, as noted and as Mirowski documents, there have been some calls for change in economic theory, such as greater cognizance of the "irrationality" of economic agents, which would conceivably challenge the retention of rational expectations in macroeconomic modeling. For instance, apparently in echoes of Keynes, Robert Shiller has recently attempted to emphasize "animal spirits" in economic decision-making. In short, a new behaviorism is attracting some attention as a means of amending the possible errors of super-rationality, whilst retaining the individualist tenet of the mainstream: *homo economicus* with flaws in the form of feelings?

Other reactions have included the renunciation of the efficient markets hypothesis by the likes of Joseph Stiglitz and Paul Krugman. Stiglitz, for instance, has long advocated the notion of information imperfections, particularly in the form of asymmetries. Stiglitz's argument, though, does not address the crucial distinctions between information and knowledge, such as how all knowledge is not codifiable, and therefore offers only a partial examination. Mirowski (2013) further contends that both Krugman and Stiglitz are cavalier about the meaning of "efficient," frequently conflating "allocative" and "informational" efficiency, which are two very different things. For one, prices may widely disseminate inaccurate information about the scarcity of resources.

Coupled with the foregoing, the dynamic stochastic general equilibrium (DSGE) modeling of macroeconomics has also been questioned. Krugman, for example, has alluded to a "freshwater/saltwater" division between economists on the efficacy of the DSGE model on the basis of its assumptions relating to the behavior of *representative* agents and their ability to optimize. There is some skepticism surrounding Krugman's distinction. Both Galbraith and Mirowski highlight how Krugman's freshwater and saltwater (rational expectations and New Keynesian) economists accept the canons of DSGE reasoning; chiefly a belief in the fundamental stability of capitalist economies. Despite the initial reflections and reservations on the role of DSGE many central banks and financial institutions continue to employ it in their modeling.

A salutary example is provided by a former governor of the Federal Reserve:

> [The crisis] has not been kind to the reputation of economics and economists.… Almost universally, economists failed to predict the … crisis.… As a result … some observers have suggested an overhaul of the … discipline.… I think calls for a radical reworking of the field go too far.… I would argue that the … crisis was more of a failure of economic engineering and economic management than… economic science.
>
> (Ben Bernanke 2010; cited by Mirowski 2013, 188)

So we are to be led to believe that the fundamentals of the mainstream are fine, it is how they are *engineered* and *managed* that is problematic. What these terms mean is not entirely obvious. The statement presents more questions than it answers. For instance, is it the way economics has been applied that is the issue? Is there a right and wrong way in applying economics—or in Bernanke's parlance, engineering and managing? Is this an admission of the (partial) culpability of economics as a contributor to the crisis? Is there profound bias in the dissemination of ideas, as Henry argues?

If there is a case for investigating the culpability of economics—as Hodgson *et al.* (2009) suggest—and if economics suppresses ideas, then the ethical conduct of the profession in "managing" and "engineering" is open to query. Yet Bernanke does not refer to the ethical dimension. Nonetheless, it has figured recently. Several high profile accusations of potential conflicts of interest in relations between some economists and financial services institutions have raised the issue of the ethical conduct of economists. The premier professional economics society—the American Economics Association (AEA)—recently convened a committee to investigate the ethical dimension of doing economics professionally. Unfortunately, the remit was rather narrow in that it was restricted to the disclosure of interests, especially financial support, in the publication of research. The AEA (2012) now requires submissions to its journals to disclose any potential conflicts of interest, and urged other scholarly journals and outlets to follow suit. This may be too little (and too late) to ensure an ethically responsible economics. In the AEA statement there is no reference to the teaching of economics. There is also no allusion to the teaching of economics and the manner in which future generations of the profession can be inculcated into such an ethical culture. This is unfortunate as teaching is the primary means by which economic ideas are disseminated and the profession is reproduced.

From financial crisis to ethics and economics

The work of DeMartino (2011a, 2011b) presents a forceful case for professional ethics and the need to carefully examine the ethical impact of economics. DeMartino argues that "[t]he economics profession today has an enormous impact on the life chances of people across the globe: one that is far greater than that of most other professions" (2011a, 4).

Standard economics is the most influential of the social sciences; informing government policy, firm strategy, and so forth. Governments, central banks, and other bodies readily apply economic and financial theories and models, and economists are recruited to advise, guide, and inform in a host of organizations (DeMartino 2011a; Hammersley 2014). DeMartino (2011a, 2011b) ably demonstrates a range of cases where the intervention of economists and economics has been pivotal. Two prominent episodes are the framing of the economic policy of the Pinochet regime in Chile in the 1970s under the influence of the so-called "Chicago Boys," a team of economists heavily influenced by the Monetarist doctrine most notably advocated by Milton Friedman. The second is the swift process of market liberalization in Post-Soviet Russia and other parts of Eastern Europe in the early 1990s. The intervention of prominent economists, such as Lawrence Summers and Jeffrey Sachs—undoubtedly for the best of reasons—was important in the sweeping privatization of state industries. Summers and Sachs, among others, believed that the Soviet economic model was subject to chronic inefficiencies and corruption, which stifled innovation and hence economic growth and prosperity. The rapid transformation of this economic model into a Western capitalist one was seen as necessary to establish a virtuous cycle of efficiency and growth leading to increased prosperity. In a period of just over two years Russia privatized a third of its production (DeMartino 2011a). This "shock therapy" was deemed necessary in order to fulfill the potential gains of a market economy as soon as possible and also limit the transition costs to the short-term. It was felt that a staged process of reform would not accomplish, and may even endanger the attainment of the alleged advantages of liberalization.

In this rush to impose a Western market system, what Henry (2009) terms as "hard *laissez faire*," no regard was given to institutional, cultural, or historical contingencies. The single institutional model of what was assumed to be a market economy was believed to be entirely appropriate and desirable to the circumstances, and indeed, applicable to any circumstances.

The architecture of the financial system, particularly of the United States and United Kingdom, could be added to this list of examples. Again, there appeared to be a consensus in the mainstream that liberalized financial markets enhanced overall economic well-being through innovation and improved efficiency. The efficient markets hypothesis and other models, such as capital asset pricing, shaped the framing of policy from the 1980s onwards, most spectacularly with the repeal of the Glass–Steagall Act, which demarcated commercial from investment banking, in the United States (Keen 2011).

From an ethical perspective, in each of those cases, and in others, economists have applied a high-risk evaluation criterion in constructing their approach and offering their advice. DeMartino (2011a, 2011b) terms this as the "maxi-max" decision-rule. This draws from the work of the libertarian philosopher, Robert Nozick. Out of a set of feasible policy alternatives, each of which has a probability distribution of possible benefits (or potential Pareto improvements), the "maxi-max" rubric directs the policy maker to that option which offers the best possible outcome relative to the best possible outcomes of the other alternatives. Thus, comparison is based solely on a calculation of maximum possible benefit. This principle, for DeMartino, is "[e]xtraordinarily aggressive since it considers just the one desideratum of maximum possible payoff in policy choice. It is, therefore, a thoroughly utopian decision rule" (2011a, 145). Moreover, "[m]axi-max yields an attitude to policy making that is hubristic and ideological rather than humble and pragmatic" (151).

The principle explicitly weighs risk as it initially calculates the probability of possible benefits. It then completely discounts the possibility of risk (of failure) in selecting between alternatives. This is utopian. DeMartino is surely right in arguing that such a method is ethically laden. Moreover, there are parallels with Henry's line of argument that the mainstream is predicated on a particular ideology founded on the illusion of perfect competition. On this view, policy options that are estimated to best mimic perfectly competitive outcomes possess a compelling narrative, especially when articulated by the authority of the economics academy. Yet, according to DeMartino, such "maxi-max" utopianism violates the ethical obligations that economists *should* have. DeMartino identifies at least three principal violations: "maxi-max" is antithetical to the principle of harm avoidance; it imposes risk on the affected community, and in doing so, violates the autonomy of those bearing risks.

By disregarding the possibility of failure in the final selection of an alternative, the "maxi-max" principle ignores the potential harm to a group or community subject to the policy. At best, standard welfare economics is consequentialist; if the consequences for a group are disadvantageous then in principle they may be compensated for their loss by those gaining an advantage. Notably, the Kaldor-Hicks criterion indicates that if the potential gain outweighs the potential loss, then change would be beneficial. Of course, however, this presumes that harm is readily quantifiable, monetizable, and therefore can be fully redressed; akin to the status quo ante. By any measure, this scenario seems rather fanciful, and ignores the possibility of qualitative harm, such as the loss of dignity, emotional distress, trauma, and even ostracization. Second, the risk of harm (quantitative and qualitative) is never evenly distributed; witness, the impact of recent austerity on the poor in many Western economies. Third, following from this; the application of the "maxi-max" principle is an imposition. There is no imperative to uphold the rights of individuals and groups to autonomy in that there is no need for prior informed consent to be considered (DeMartino 2011a). Rather, as long as the possible benefits can be calculated, and this is assumed to be the case, then issues of consent do not seem to be of relevance.

DeMartino's case is principally aimed at economists providing either policy advice directly, or through the framing effect of their research outputs. DeMartino recognizes that teaching also has significant effects in shaping how students apprehend the subject. As noted, pedagogy is primarily the means by which the subject, or any subject, reproduces and disseminates its ideas. That is not to say that students present a *tabula rasa*, but, to recall, as the original institutionalists instruct; institutions simultaneously *partially* constrain, enable, and shape an individual (Hodgson 2004). In partially shaping the person, institutions, such as teaching bodies, influence their worldviews, aspirations, and moral perspectives. It may be moot to speculate that the longer an individual stays with the subject the greater the inculcation. For example, the work of David Colander (2008), and others, has emphasized the impact of training in standard economics on the outlooks and attitudes of its students (see also, Frank *et al.* 1993). Teaching, then, has a profoundly normative dimension.

In this context, the impact of the financial crisis on the teaching of economics is of interest. The prospects are not entirely encouraging for those seeking change, or some freedom of ideas. For instance, Mirowski (2010) acerbically observes that "simply augmenting his existing textbook with another chapter defining collateralized debt obligations and some simple orthodox finance theory would do the trick. *No second thoughts for us foxes*, thank you" (31, emphasis added).

Indeed, my own rather superficial survey of introductory economics texts does not challenge Mirowski's reflections. At best, textbooks introducing the subject do so using the standard principal-agent approach (for example, chapter 37 of Mankiw and Taylor 2011), inferring that the crisis may be reducible to a case of information asymmetry and moral hazard. It seems business as usual as far as conventional textbooks go. This enduring entrenchment of the mainstream approach goes beyond Mirowski's (2013) argument about the socially dysfunctional properties of the economics profession as manifest through its hiring practices and journal rankings. Arguably, the mainstream media in many Western economies, principally the Anglo-American axis, has, following its initial skepticism of economics at the outset of the crisis, entirely succumbed to the "there is no alternative" mantra of fiscal austerity and the (misleading) standard economic argument over public debt. Coupled with the fundamentalist faith in *homo economicus* in much of the academy (Davis 2011), the foregoing points to paradigm blindness. Moreover, authors' unwillingness to challenge the Humean Guillotine at the beginning of most introductory texts lends further weight to this argument. By crudely following the Robbinsonian line that economics should be confined to the positive domain, economics' relationship with ethics is unjustly relegated from the outset of study. Again, Henry's concern about the construction of a seemingly value free analysis as a façade resonates strongly. It may be ventured that this is a teaching manifestation of "maxi-max": direct the student to the best possible outcome relative to other outcomes, presenting it as a wholly "objective" science—devoid of moral judgments, and a strong bias emerges for perfect competition. After all, this way of organizing society is demonstrably superior to all others.

A key problem with "maxi-max" is that it lacks ethical legitimacy. Following DeMartino, professional ethics is driven by two fundamental principles: prudence and autonomy. The prudential principle, which can be overly conservative, instructs professionals to avoid causing harm. The autonomy principle is concerned that the integrity and self-determination of those individuals in contact with professionals is at least respected by the professional. "Maxi-max" with its consequentialist focus and disregard of the possibility of failure is not consistent with either of these principles (DeMartino 2011a, 2011b). DeMartino's inference is clear—an ethical economics should abandon its attachment to the "maxi-max" rubric. What DeMartino does not indicate is that this imposes a particular duty of care on the teachers of economics, and perhaps even the state, which is not currently evident in many parts of the world.

In some parts of Europe, for example, the state lends legitimacy to a standard economics curriculum. For instance, in France, following the rise of the Post Autistic student movement, a government-initiated inquiry into economics provision in higher education ultimately supported a mainstream economic perspective. In the UK a government-funded body, the Quality Assurance Agency (QAA) for Higher Education, issues benchmark statements that form guidelines as to the shape of a curriculum in a subject, graduate attributes associated with a subject, and the basis for quality assurance inspections and reviews. The economics benchmark statement is (at the time of writing) under review, and under the auspices of the Institute for New Economic Thinking (INET) a project—curriculum open access resources in economics (CORE)—is also reflecting on reforming the economics pedagogy. The 2007 benchmark statement is interesting in that it specifies expectations of the skills a student *should* possess. A "typical level" for a graduate in economics should demonstrate, *inter alia*: understanding of economic concepts and principles (as specified); understanding of economic theory and modeling approaches; proficiency in quantitative methods; display familiarity with the possibility that many economic problems may admit of more than one approach and may have more than one solution (QAA 2007). This is as it may be expected. However, the benchmark statement is interesting in what a "typical level" student *need not* demonstrate: any knowledge or understanding of the/an economy, or any knowledge or understanding of the history of economic thought. Students are expected to have an appreciation and understanding of mainstream economic precepts as opposed to any awareness of the history of the subject, its diverse schools of thoughts, or of the economy. In short, economics may be an "arcane purveyor of synthetic puzzles" (Morgan 2014, 17), as opposed to a field of inquiry into the economy. To reiterate, the QAA is a state body, usually populated by subject experts drawn from the field, and therefore provides a legitimating function. Under this interpretation there is no formal duty of care to provide students with some exposure to the range of ideas in economic thought.

Of course, there have been pronounced reactions and coordinated movements seeking to redress the dominance and power of the mainstream. For instance, there is a long-standing advocacy for pluralism in teaching provision (Garnett and Butler 2009; Morgan 2014), and the need to teach the history of economic thought (Henry 1990; Mirowski 2013). There has been the recent rise of student movements, campaigns, and protests, such as the original Post Autistic movement established in France, which has spread worldwide with the support of academics, and has evolved recently into the Real World Economics movement. The development of this movement has been accompanied by sporadic student protests at the content of economics curricula; most notably a few years ago at Harvard. The common message is that students have a desire for pluralistic teaching, particularly of content: there is a wish to explore the diverse schools of thought in economics. Arguably, this exercise of student autonomy deserves a positive response from the academy. As noted, professional ethics, after all, are based on prudence and autonomy (DeMartino 2011a). Professional ethics evoke a fundamental duty of care, but what is care?

Toward a duty of care in the teaching of economics?

Care theory has interdisciplinary roots in, but not restricted to, feminist theory, medicine, nursing, education, philosophy, psychology, and sociology (e.g., Blustein 1991; Engster 2005; Folbre 1995; Tronto 2013; van Staveren 2005). Adam Smith ([1759] 2000), in the *Theory of Moral Sentiments*, devoted some effort to exploring the properties of care and its importance in human relations. He found that care is bound up in affection and sympathy, implying that it is deeply relational. He also argued that care possesses a profound ethical dimension: it is associated with the virtue of beneficence. With very few exceptions, such as Thorstein Veblen, and (less directly) Kenneth Boulding, economists have tended to overlook the properties of care. Where care does feature it tends to be confined to models of unpaid labor, and be conflated with altruism (Folbre 1995; van Staveren 2005). This, however, does not adequately capture the nuances of care as both instinctive and socially constructed.

Among a variety of definitions of care, much of the literature refers to the broad one proposed by Joan Tronto:

> On the most general level, we suggest that caring be viewed as *a species activity that includes everything that we do to maintain, continue, and repair our "world" so that we can live in it as well as possible.* That world includes our bodies, ourselves, and our environment, all of which we seek to interweave in a complex life-sustaining web.
>
> (Tronto 2013, 19, original emphasis)

Tronto (2013) has defended the breadth of this definition in terms of it providing an overarching frame—caring activities can, therefore, be nested in a broader caring framework. Within this frame Tronto attempts to develop a conceptualization of care and caring through distinctive, yet potentially overlapping "phases of care." These phases are aligned to particular ethical qualities (see Table 8.1).

Tronto's (2013) "caring about" has the ethical quality of attentiveness—the potential carer is aware of caring needs, and may be prepared to assume the ethical quality of responsibility in addressing these needs. Thereafter, "care giving" embodies the functional practices of care and, for Tronto, invokes an ethical quality of competence in the ability to discharge the appropriate functions and activities. The way people interact and act is influenced by their relationships with one another in specific social roles in particular settings. In this, Tronto's fifth phase of care, "caring with," seems relevant. It attempts to capture "democratic commitments to justice, equality, and freedom for all" (23). Thus, for Tronto, purposes and actions of care may be embedded within one another. For example, maintaining one's bicycle may be a caring practice embedded within the broader practice of using that bicycle to cycle to work (rather than driving a car), which is embedded in the broader practice of reducing pollution in one's city. These interrelationships are further illustrated through the dependencies between these differing caring practices.

Table 8.1 Tronto's phases of care

Phase of care	*Meaning*	*Ethical quality*
Care about	Awareness of care needs	Attentiveness
Caring for	Following identification of needs, taking responsibility to meet those needs	Responsibility
Care giving	Action of care	Competence
Care receiving	Observing and assessing the effectiveness of the care action	Responsiveness
Caring with	Care identified and given should be consistent with commitments to justice, equality, and freedom for all	Plurality, trust, communication, respect, solidarity

Source: adapted from Tronto (2013).

Concerns for reduced pollution are collectively orientated and, thus, where embraced collectively, can engender shared intentions among citizens.

The first four phases of Tronto's conceptualization of care and caring are linear. "Caring with" does not fit the linearity of the preceding four phases and may be reflective of Tronto's overarching definition of care. For this reason, arguably, "caring with" may be more appropriately envisaged as a facilitating phase. If "caring with" is not reflective of Tronto's rather idealist allusions to democratic commitments, then the capacity to "care about" may be eroded. Tronto's highlighting of a "caring deficit," in the sense of unmet caring needs, also seems to reflect such an ordering. Thus, the judgment exercised in the first of Tronto's phases would at least be informed by institutional context (Tronto's fifth phase).

Tronto recognizes that each phase transition may fail to materialize—especially if there are resources or institutional impediments and/or the absence of, or insufficiency in relevant ethical qualities. Care theory acknowledges the difficulties in translating intention into action and, indeed, how individuals may not be sufficiently committed to overcome impediments to action. For instance, Smith (1998) describes "care for" and "care about" in terms of beneficence and benevolence. For Smith (1998, 16) the former is a behavioral manifestation as in, "doing good or showing *active* kindness" (emphasis added), whereas the latter refers to intent: "the *desire* to do good or charitable feeling" (emphasis added). Hence, there may be a failure in phase transition as benevolence is not converted into beneficence. Moreover, there may be specific duties of care that may inform the distribution of caring activities (Engster 2005), and there may be conflict among competing care needs that is inevitable and intrinsic to the phases of care and the essence of a "care deficit" (Tronto 2013). Different manifestations of care and caring acts reveal incongruities. Indeed, there is explicit recognition of this in Blustein's (1991) hypothetical example of a schoolteacher who takes a particular interest in the welfare of a student to demonstrate "to care about," "caring for," and "care giving." The teacher is attentive; yet does not find the student to be especially appealing or likeable; hence, it is possible to "care about" *X* and not have affection for *X*. The teacher is, in essence, responding to the obligations associated with their social position. The training of the teacher inculcates the values of the profession and hones underlying dispositions consistent with the role.

So what does this mean for the teaching of economics? And how does this relate to DeMartino's principles of professionalism, and Henry's advocacy of the emancipation of ideas in economics?

There is no doubt that the economics academy, as a whole, cares for students, and by extension, society, in the sense of attempting to provide what is taken to be an appropriate curriculum. This "caring" also extends to furnishing students with suitable skills to be of benefit to society. From

Tronto's phases of care, one might argue that, in general, there is widespread acknowledgment of the social role of economists as teachers and their obligations therein.

However, given DeMartino's powerful argument that economics' ethical standing is dubious following its vigorous pursuit of "maxi-max," and Henry's claim that economics is based on a narrow set of ideas, which have a particular ideology, there are grounds for questioning the ability of economics—as currently configured—to fulfill its duty of care. In other words, economics may not demonstrate the virtue of competence in being able to address caring needs. Arguably, its paradigm blindness entails transition failure through the various phases of care. I'm reminded of Nel Noddings' (2003) allusion to the Western aid program following a devastating earthquake in Afghanistan in the 1990s in which food and clothing were donated, but building materials were required, yet not donated. For Noddings, the West was not sufficiently "engrossed" or "motivationally displaced" by the care needs of Afghanistan, and hence the program of Western aid cannot be considered to be an act of caring, but superficial tokenism that betrays an underlying indifference. Perhaps Noddings' argument is a little intemperate, but it does highlight the importance of attentiveness in apprehending care needs. Noddings' example also offers a limited parallel to the argument advanced here. Perhaps a rephrasing of her argument to "paradigm blindness" may not only better reflect the West's efforts, but also those of mainstream economics.

The paradigm blindness of the standard approach leads to a failure to identify and appreciate the caring needs of students and society. Combined with a reluctance to accept some culpability for the recent devastating effects of the financial crisis and the subsequent era of austerity this could be interpreted as at best unfortunate, and at worst an uncaring hubris. Indeed, the recent growth of student movements questioning the nature of the standard economics curriculum further suggests a transition failure in "care receiving," and a "care deficit." By DeMartino's second principle of professionalism—self-determination and autonomy—and Tronto's theory, the economics academy is under some obligation to respond to such concerns. As Henry's argument infers, the academy should recognize that the mainstream does not offer a monopoly of wisdom. There is an unmet caring need for pluralism in economics pedagogy. On Henry's terms, the plurality of ideas and their sufficient dissemination would be emancipatory for students and society.

Some conclusions

John Henry has a highly distinguished career, and it is been my privilege to know him and admire his contributions to economic thought. In this chapter I have attempted to articulate Henry's case for the need for pluralism in economics pedagogy as part of a wider emancipatory and democratizing agenda.

Framing this in the context of an ethical economics informed by care theory, I feel, develops the contention.

John Dewey (1981) claimed that scientists have a pivotal role in ensuring that their expertise beneficially informs the populace about the problems confronting society. More recently, drawing from the works of Robert Proctor and Londa Shiebinger, Mirowski (2013) writes of the dangers of agnotology—politically and/or culturally induced doubt or ignorance, particularly relating to the publication and dissemination of dubious and misleading scientific results. Mirowski identifies instances of agnotology deployed in the natural sciences in cases of the dangers of tobacco, the theory of evolution, and the causes and implications of climate change. With typical linguistic flourish, he states:

> The aim of agnotology is not so much to convince the undecided, but to fog the minds of anyone lacking the patience to delve into the arguments in detail.... If we define agnotology to be the analysis of ... the intentional production and promotion of ignorance, then it has been the Fourth Horseman of the Absolution from the Apocalypse for economists.
> (Mirowski 2013, 229)

For Mirowski, the entanglement of much of standard economics in neoliberalism stimulates agnotologistic strategy in order to preserve existing power structures. The dominant policy reaction to the financial crisis based on academic economic contributions, such as Reinhart and Rogoff's (2010) now notoriously flawed analysis, is a powerful case in point. Politicians directly cited this work as some sort of "scientific" justification for austerity. The claim and analysis has been subject to vigorous and compelling critique (Herndon *et al.* 2014; Konzelmann 2014), but the policy persists.

Mirowski's invocation of agnotology reflects a key theme promoted in Henry's work: the emasculation of ideas. Henry is sensitive to the power of ideas and how they can be fraudulently used to maintain the status quo. His concern is that economics is an important part of the armory. Accordingly, offering a curriculum that is pluralistic, where students are encouraged to encounter ideas from various schools of thought—as opposed to just one—becomes empowering for students. Coupled with the embrace of professional ethics in the avoidance of "maxi-max" a convincing case exists for curriculum reform. Further, in my view, framing the case for pluralism in economics education in terms of a duty of care, emphasizing the virtues of: attentiveness, responsibility, competence, and responsiveness, the importance of establishing a socially responsible economics, the need for which Keynes accepted (as the quote at the beginning of this chapter demonstrates), is further clarified. John Henry's demand for pluralism and the emancipation of ideas is the ultimate in a more ethically sound economics. Articulating this in terms of a duty of care may buttress the appeal of pluralism and harness student discontent with the status quo into pressure on the relevant authorities, including, in some instances, bodies of the state.

One of the lessons of the financial crisis is that the standard economics curriculum is not adequate in explaining the complexities of real-world capitalism. As Henry shows, a pluralism of ideas can stimulate creativity and be an emancipatory force. Henry's example of the slow dissemination of Copernican theory should serve as a salutatory reminder.

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9 Economics and history

Why economists and policy makers need to understand the latter

Mario Seccareccia

Economics needs history, even more than history needs economics.
(Kindleberger 1989, xii)

Introduction

My relationship with John Henry goes back almost five decades to the academic year 1969–1970 at McGill University in Montreal, Canada. During that memorable academic year, I had enrolled in a two-semester undergraduate economics course, titled *European Economic History*. As destiny had it, John Henry had been hired to teach the course as a sessional lecturer, while at the same time still struggling to complete his doctoral dissertation that, according to him (see Henry 1995, ix), had been largely influenced by the 1960s Cambridge capital controversies. Sometime during those years, while working on his thesis, his research interests expanded to include the broader question of the link between developments in economic theory and the evolution of the economy, which together constituted the subject-matter of his course. Though his original teaching material was primarily about economic history, in actual fact it entailed the remarkable blending of discussions about the evolution of economic ideas and how these ideas interacted with the historical transformations of the whole economy along relativist lines, very much in the style of what blossomed two decades later in his much-celebrated book *The Making of Neoclassical Economics* (1990). Although that original 1969–1970 course was subsequently removed as a 100-level first-year economics course and was revamped and split into various 300-level courses, the McGill economics department deserves some credit for still offering students a suitable selection of courses in both economic history and the history of economic thought, which have now almost virtually disappeared from both the undergraduate and graduate curricula of numerous economics departments in Canada and elsewhere in the English-speaking world.

If economic history is made available at all to students, it is now being taught more and more in history departments, not by economists but typically by historians. This is hardly the most desirable outcome. Much as

Veblen (1898, 375) had stated it long ago in his criticism of the German Historical School, the traditional source-based descriptive historiographical method of the historians tends to avoid the use of abstract concepts and theories when analyzing and drawing conclusions from the evidence and thus focuses more on an analysis of broad social patterns of behavior and the evolution of technology via descriptive taxonomy. Indeed, historians often have little training in economic analysis and, as historians, are perhaps even less exposed than mainstream economists to fundamental historical debates in economic methodology. These visible changes over the last half century in the curricula in many colleges and universities have been significant. Even in my own department (at the University of Ottawa) at the undergraduate level we are left only with a couple of historically oriented courses—one in Canadian economic history and one in the history of economic thought—mostly because the few remaining heterodox economists, nowadays primarily Marc Lavoie and I, have struggled over the years to preserve such courses in the economics curriculum, with history of thought still remaining a compulsory course for the honors undergraduate program. In contrast, in many departments elsewhere in North America, history-focused courses have disappeared as required courses for undergraduate training and, in many cases, are not even offered as optional courses. Presumably this is to ensure that mathematical economics courses prevail, thereby occupying a growing share of the curriculum. Possibly, this is also to give students the misleading impression that economics is something akin to the physical sciences whose subject matter can be detached from history and substantive institutional analysis.

Despite the fact that there have developed such visible countervailing academic movements over the last decade to try to reverse this tendency, associated primarily with the appearance of student initiatives, such as the Post-Autistic Economics movement that began in France in 2000, followed by the Kansas City Proposal of 2001, and even nowadays with the worldwide 'Rethinking Economics' movement, historically oriented research activities, as well as related university heterodox economics courses, continue to be under attack from the mainstream. An important example of such struggles is what happened in Australia in 2007, when the Australian Bureau of Statistics even reclassified and inserted history of economic thought into a new grouping: 'History, Archeology, Religion and Philosophy,' thereby effectively trying to remove it from economics as a discipline. In 2011, the European Research Council also tried to eliminate history of economic thought from its economics division. Although these attempts to delegitimize history officially within the discipline of economics by trying to enforce some form of collective amnesia among economists did not succeed because of widespread mobilization by heterodox economists, all these various attacks on history-oriented economics courses took place at a time when mainstream neoclassical economics was itself under severe criticism, especially in the thick of the financial crisis, when it failed miserably in its predictive capacity and when the use of neoclassical equilibrium analysis to explain the crisis seemed completely inappropriate. Nowadays, some seven years after the financial crisis, little has changed and, much like the 'Inquisition' in Galileo's times, scholastic-like cloistered departments remain without history-oriented courses in their economics programs, with general equilibrium theory continuing to reign supreme and constituting the hard core of the material of 'high level' undergraduate and graduate teaching. This is so even though, as an analytical tool with its unrealistic underlying assumptions, neoclassical equilibrium theory is of little help in understanding both historical and contemporary economic reality.

In a discipline where repeatable laboratory experiments are not feasible, how can one claim to explain the world merely through simple theoretical structures often based on axiomatic analysis that relies on introspection as, for instance, neo-Austrians do, or to seek superficially to mimic immanent empirical regularities, regardless of the realism of the assumptions or presuppositions underpinning the theory à la Friedman? Economic behavior is 'time-dependent' and one cannot simply make assumptions methodologically about the economic behavior of a single agent, *homo economicus*, which abstracts from historical context and evolving culture, against which Veblen (1898, 389–390) was so fiercely opposed already over a century ago. As Hodgson (2001) argues forcefully, one must take account of historical context or "historical specificity." Instead, when history enters at all in the discussion of what are otherwise timeless theoretical equilibrium models of the world, it is only at the so-called "applied economics" level. However, even at that level, students are forced to view the world through the lenses of time-series analysis in a closed methodological loop in which the relevant history is presumed to be embedded in the data set used to test a hypothesis with the latter theoretical proposition itself being derived from axiomatic reasoning. This is not at all to question the relevance of statistical testing. The problem is that "applied economics," as conceived by the mainstream, is not about getting insights from historical narration coupled with statistical observations to help one better capture the many facets of reality; rather, econometric analysis has become mostly an exercise in confirming that one's theory is "consistent" with some 'observed' data set that is itself theory-dependent—i.e., based on time-dated theories about how to structure and quantify observable reality. It is never a study of actual multidimensional social events that offer knowledge about the past, in the style of, say, John Kenneth Galbraith's *The Great Crash, 1929*, Charles Kindleberger's *The World in Depression 1929–1939*, or Celso Furtado's *The Economic Growth of Brazil*, or about how theory can be used to shed light on the decision-making process of actual people within a historically-specific context, where quantifiable data is used to support rather than replace the historical analysis.

Likewise, being a-historical and methodologically "imperialistic" vis-à-vis other approaches, mainstream economists are trained not to test a theory against an alternative hypothesis, but rather normally to test it against the null hypothesis that no relationship exists. Hence, somewhat arrogantly, the choice is a binary one: the "theory" is either consistent with the data, according to relevant statistical criteria, or there is no underlying relation and thus no other possible explanation is considered. Pluralistic scientific methodology, say, à la Paul Feyerebend, is rejected by the mainstream. This is why mainstream neoclassical economists do not tolerate dissenting ideas that force them to think outside of their box. Heterodox economists are a nuisance cost to mainstream supporters that they would much prefer to ignore or downright suppress rather than seriously consider the challenges that heterodox ideas pose for the discipline.

This struggle over the significance of history is certainly nothing new and it has erupted frequently since the nineteenth century, especially during the so-called *methodenstreit* (the "method dispute") toward the end of that century between the early marginalists and the Historical School. It erupted also during the early post-World War II years between neoclassical economists and the Institutionalists over the importance of understanding historically evolving institutions vis-à-vis the advocates of the so-called "as if" principle that defended the pertinence of unrealistic assumptions in economic analysis. This struggle over the importance of history continues unabated with important contributions from Blaug (2001), Hodgson (2001), Eichengreen (2012), and Dimand (2014). I would like to argue that the current crisis both within the economics discipline and in economic policy circles stems from this general negative attitude toward real-world historical analysis. In his book, *Defending the History of Economic Thought*, Steven Kates (2013, 21) provides a long list of practical reasons to demonstrate why historical approaches, namely economic history and history of economic thought, are so important for the proper training of economists. Kates' list of points can be perhaps best summarized as follows: History is important because it allows us to learn from past theories (and historical observations) and to contrast them with the current ones in order to understand if there are any real advances in knowledge. But, perhaps more importantly, it is also because ultimately the historical perspective trains students to approach economics from a pluralistic perspective. Indeed, one can restate the essential contribution of historical knowledge by saying that: History forces economists to recognize that there are alternative perspectives that may well be as appropriate, if not more appropriate, to the understanding of today's economies. The statement that "There is No Alternative" (TINA), when considering both theory and policy issues, betrays a lack of a pluralistic historical perspective or, to be somewhat blunt, it is merely a declaration of intellectual impoverishment or bankruptcy. Yet that has been the methodological tendency in the discipline, which, as earlier noted, is reflected also in today's curriculum in most post-secondary institutions.

The object of the present chapter is to celebrate the approach favored by John Henry ever since I first met him, which is that of seeking to understand the world through historical lenses. Although some may consider this to be overly ambitious and a somewhat superficial exercise in historical analysis, the chapter seeks to offer a blend of historical facts and history of ideas to shed light on and meet the challenges of the contemporary world. To understand why historical analysis is so important, I would like to discuss briefly two separate experiences with which John Henry would readily identify: (1) one pertaining to the broader North American history and, more precisely, to focus on what one can glean from an analysis of the Great Depression vis-à-vis the recent Great Recession; and (2) one pulled from Canadian economic history and Canadian economic thought to shed light on current problems both in Canada and in the North American context over the controversy about oil and free trade.

Learning from history: two experiences in the North American context

Comparing the Great Depression and the Great Recession: what can we learn?

As soon as one takes a long-run historical perspective, one is struck by obvious similarities between the Great Depression of the 1930s and the recent Great Recession, even if the latter has not seemingly degenerated into a severe deflationary episode characterized by rising real interest rates, rising real indebtedness, and dangerous deflationary dynamics of falling money wages and prices. According to Desmedt *et al.* (2010), both crises have their roots in problems of rising inequality and bubbles in asset markets, much as it had been emphasized also by Galbraith (1954) in the case of the Great Depression. The recent collapse, beginning in 2007 with the subprime crisis, was triggered by problems in the housing market, which was then transmitted to the banking and financial markets in 2008 and eventually to the real economy by 2009. During the Great Depression, the sequence was somewhat in reverse, with problems beginning in the stock market arising from a "speculative orgy" (Galbraith 1954, 16), even though there is some debate as to its critical significance (see Bierman 2013, 119–126). This then led to the collapse of the banking sector with obvious ramifications in the real economy, including the housing market. Despite some similarities with each recession in the economy being preceded by some type of financial crises along the lines of Wolfson (1994) and Hsu (2013), by any measure the Great Depression was more severe than the Great Recession.

To understand why a historical perspective is so important, especially to economic policy makers so as not to repeat the mistakes of the past, we shall begin with a bird's-eye view of how the experience from the Great Depression was both similar and yet different from the recent Great Recession. I shall focus on just a few key variables, which are clearly incompatible with the monetarist explanation *à la* Friedman and Schwartz (1965), for the simple fact that anyone who knows anything about money will understand that the money supply is an endogenous variable that cannot be "causal" in the monetarist sense and, moreover, money is absolutely "non-neutral" vis-à-vis the real economy in both the short and the so-called long run. While my focus on a variable like the saving rate would be more compatible with a traditional Keynesian perspective, much like Perry and Vernengo (2014) I am not at all comfortable with the IS-LM framework of interpreting the Great Depression spelled out by Temin (1976) or by new-Keynesians such as Romer (1993), but more in line with the views of Kindleberger (1973) that conceives the mechanism of transmission through the monetary side in the Minskian sense as defaults led to credit crunches with feedbacks effects on the real economy. However, there is a clear Post Keynesian emphasis on income distribution and saving propensity, which is in sharp contrast to the views held by those who point to the insufficiency of price and wage adjustment to achieve market clearance. Moreover, while the dominant international institution, the gold standard, was a factor, as emphasized by Temin (1989), Eichengreen (1992), and Bernanke (1995), which exacerbated the crisis and led to its international transmission, it would not have been more important than other factors since, even in a world of dominantly floating exchange rates (outside of the Euro area) as during the recent financial crisis, the recession also spread very quickly worldwide from its origin in the United States, just as it did after 1929 (see, for instance, Borio *et al.* 2014, 9). Let us now look at some observed facts pertaining to a limited number of key variables for both the United States and Canada largely from a Keynesian angle. These strategic variables, displayed in Figures 9.1–9.3, are output and employment, money and real wages, and the personal saving rate, which offer a broad Keynesian and Post Keynesian flavor.

As can be seen from Figure 9.1, from its peak in 1929 to the trough in 1933, real GDP and employment fell by 30 percent or more in both Canada and the United States. At the same time, real wages rose consistently (see Figure 9.2), initially because prices fell more quickly than wages until 1933, and then because nominal wages began to rise more than prices after 1933. Despite the sharp fall in employment, the reverse movement of real wages served to redistribute purchasing power in such a way as to offset the overall decline in aggregate demand. Hence, in the initial absence of much government stabilization until the Roosevelt New Deal, there was a certain private sector stabilization taking shape even though these forces were very weak in comparison to the severity of the decline. This was further reinforced by a fall in the personal saving rate until 1933 as households initially sought to maintain their previous consumption

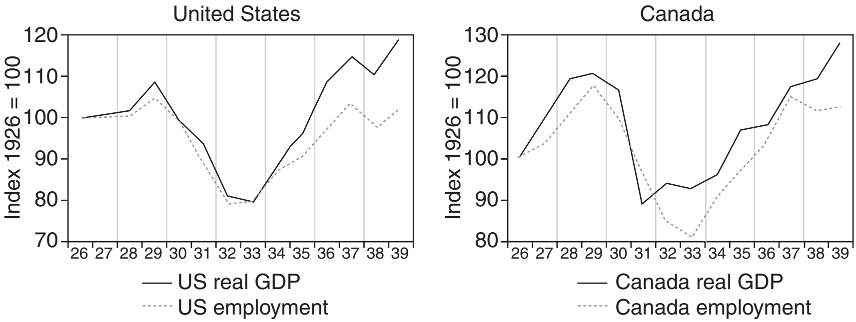

Figure 9.1 Fluctuations in total employment and output, the United States and Canada, 1926–1939 (sources: Carter *et al.* (2006), Vol. 2, Table Ba840: 12–112; and Vol. 3, Table Ca9: 3–25; Statistics Canada, CANSIM Series D14442; and Statistics Canada (1983), Series D528).

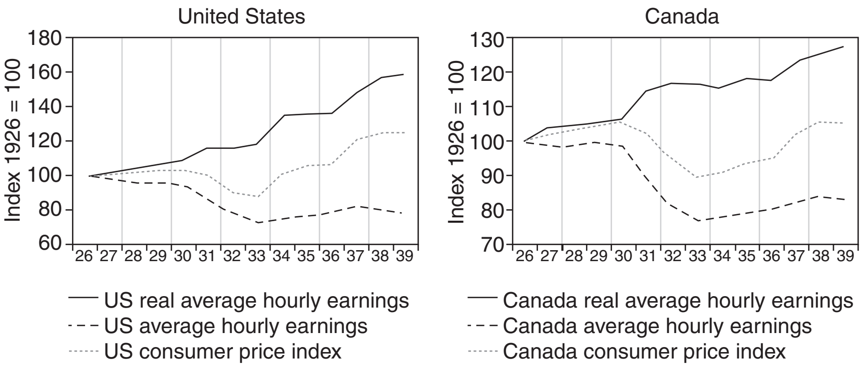

Figure 9.2 Movement of average hourly wage rates, the consumer price index, and average real wages, the United States (manufacturing) and Canada (industrial composite), 1926–1939 (sources: Carter *et al.* (2006), Vol. 2, Table Ba4396: 2–281; and Vol. 3, Table Cc1: 3–158; Statistics Canada (1983), Series E198 and K8).

norms, as emphasized by institutionalist theories à la Duesenberry (see Seccareccia 2010), despite the fall in nominal income. However, once income and employment began to turn around, the saving rate started to rise after 1933, as households sought to reduce their debt load or rebuild their balance sheets, which prolonged somewhat the stagnation until Roosevelt's 'New Deal' fiscal stimulus was put in place by 1935 (see Figure 9.3).

How do these indicators compare with the evidence on the Great Recession? In the time series displayed in Figures 9.4–9.6, we consider a span of

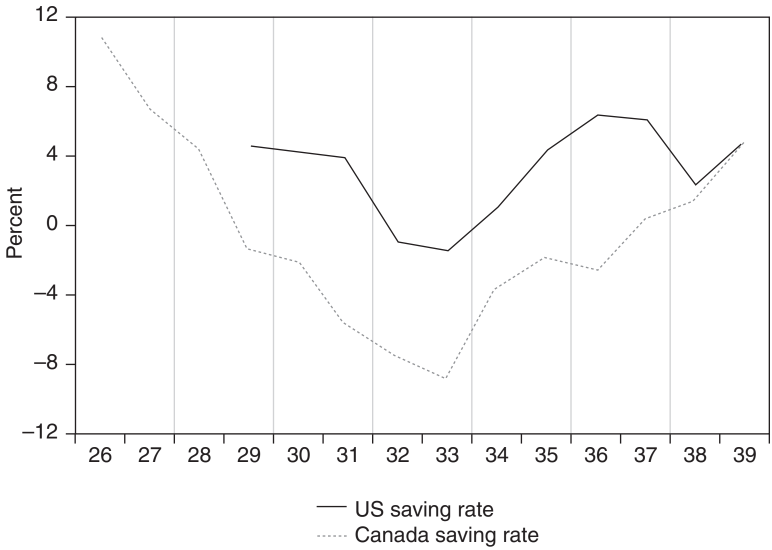

Figure 9.3 The evolution of the personal saving rate during the Great Depression, the United States and Canada, 1926–1939 (sources: Carter *et al.* (2006), Vol. 3, Table Ce122: 3–312; Statistics Canada (1983), Series F83 and F90).

time centered on the 2008 financial crisis that is similar to that centered on the 1929 Great Crash in Figures 9.1–9.3. From the evidence below, there are some obvious similarities; yet some important differences are also noteworthy.

During the Great Recession, the situation was comparable in terms of negative fluctuations in output and employment, but, despite the similar severity of the financial crises, these data series displayed only a very mild decline after 2007–2008 (see Figure 9.4). In fact, in the depth of the crisis, in the United States, output and employment fell by about 3 and 5 percent respectively, with Canada showing some limited decline in the two series of about 3 and 2 percent respectively but only during 2009. The collapse in aggregate demand triggered a disinflation in prices but without making any significant dent on money wage growth, which continued its inertial slow growth pattern established during the preceding era of the "great moderation." Hence, unlike the 1930s, real wages rose mildly but, in this case, because money wages outpaced prices after 2007–2008. There was no massive deflation as during the 1930s (see Figure 9.5). On the other hand, unlike during the Great Depression with the savings rate initially falling, households were so overly burdened with debt during the recent downturn that, in the face of uncertainty, they quickly increased their saving rate in order to remove some debt off their balance sheets, thereby exacerbating

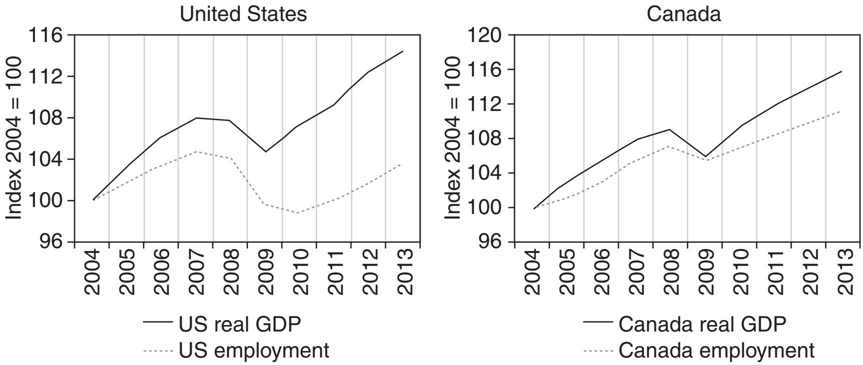

Figure 9.4 Fluctuations in total employment and output, the United States and Canada, 2004–2013 (sources: U.S. Bureau of Statistics, Establishment Data, Historical Employment B-1; U.S. Department of Commerce, Bureau of Economic Analysis, Selected NIPA Tables, Table C1; Statistics Canada, CANSIM Series V2522952 and V62305752).

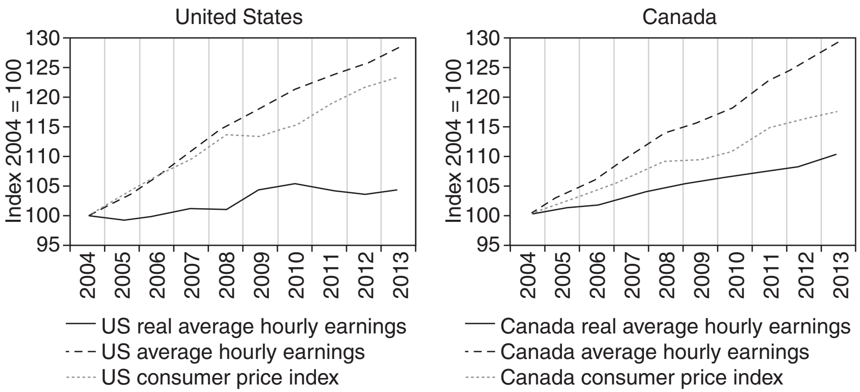

Figure 9.5 Movement of average hourly earnings, the consumer price index, and average real hourly earnings, the United States and Canada, 2004–2013 (sources: FRED Economic Database, Federal Reserve Bank of St. Louis; Statistics Canada Series V1592156 and V1806037).

the problem of aggregate demand throughout the recession and leading to Richard Koo's (2009) household balance sheet recession scenario (see Figure 9.6). Hence while the recession was less severe in 2008–2009 than during the 1930s, there were actually less private sector stabilizers kicking in as had occurred immediately after 1929, with real wages rising very quickly and the saving rate initially declining. As Minsky (1986) would say, without "big government" that was nowadays an important makeweight in the system, private sector stabilization during the Great Recession was less substantial.

Figure 9.6 The evolution of the personal saving rate during the Great Depression, the United States and Canada, 2004–2013 (sources: FRED Database, Federal Reserve Bank of St. Louis; Statistics Canada, CANSIM Series V647038 and Table 380–0072).

For instance, in terms of income distribution effect, the increase in real wages was very mild in comparison to the jump during the 1930s, and, in terms of household expenditure flows, the saving rate rose immediately in 2008–2009 instead of a few years later as during the Great Depression. This would suggest that the Great Recession may have been milder thus far, but it may well be more prolonged in nature, unless macroeconomic policies are put in place, as households seek slowly to re-establish their balance sheets.

Given these similarities and yet important differences, what happened to the conduct of macroeconomic policy? There were some noteworthy differences. On the monetary policy front, nominal interest rates, as reflected in the three-month Treasury bill rate, over the early years of the Great Depression, did slowly fall to reach their historical lower bound by the mid-1930s. This ensured that real interest rates rose as deflation set in, with the burden of debt rising and with a rising net transfer of income to rentiers. It is only during the latter half of the 1930s that this pattern reversed itself with real interest rates turning mildly negative (see Figure 9.7). The comparison with the most recent crisis is quite remarkable as interest rates also fluctuated, but mostly went into negative territory in 2007–2008, therefore securing a loose monetary policy environment during the latest financial crisis, which was not the case in the 1930s,

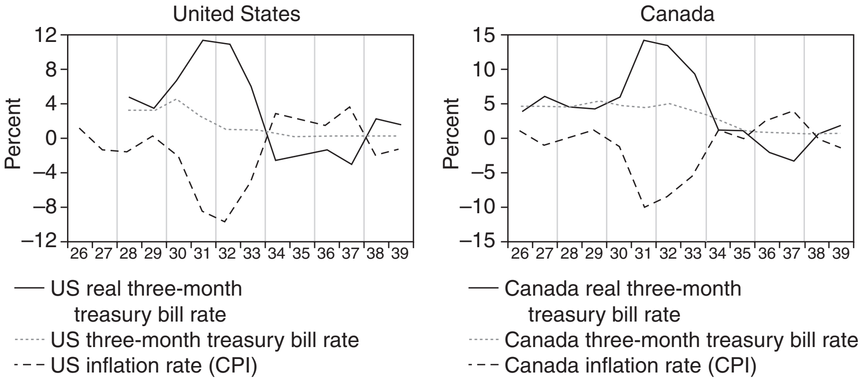

Figure 9.7 Monetary policy: movement in nominal and real interest rates and the rate of change in consumer prices, the United States (three-month treasury bill rate) and Canada (composite of related short-term rates), 1926–1939 (sources: FRED Economic Database, Federal Reserve Bank of St. Louis; U.S. Bureau of Labor Statistics; Statistics Canada (1983); Nixon *et al.* (1937), Table VI, 427; Amarel and MacGee (2002, 45–72); Homer and Sylla (1991), Table 75, 549–550).

where short-term interest rates declined somewhat more slowly in the face of falling prices (see Figure 9.8). Moreover, nominal interest rate pegging at very low levels occurred during the latter half of the 1930s and during the war and early postwar period until the US Treasury-Federal Reserve Accord of 1951 after which Wicksellian style discretionary interest rate setting slowly became the norm (Seccareccia 1998; Lavoie and Seccareccia 2013). During the recent financial crisis nominal interest rates were also pegged for a shorter period, but not because of an agreement with the Treasury. These low interest rates were further supported through so-called "quantitative easing" (QE), under the misleading monetarist belief that somehow greater liquidity through central bank asset purchases within the banking system would eventually lead to greater bank lending. While the latter transmission mechanism was largely an illusion (as evidenced by Japan's experience over the last two decades) and a throw-back to an earlier monetarist era, the policy of QE did insure that interest rates remain for a long while at their lower bound.

On the fiscal side, we see a pattern that is also similar, and, in part, repeating some of the same mistakes of the past. Just before the Great Crash of 1929, the fiscal authorities were all running significant budgetary surpluses because this was largely the automatic outcome of the relatively high growth of the preceding era, as one can see in Figures 9.1 and 9.9, with peak output levels being reached just before the crisis. However, as soon as these economies plunged into depression, revenues fell dramatically and public spending rose, despite concerted attempts to control the

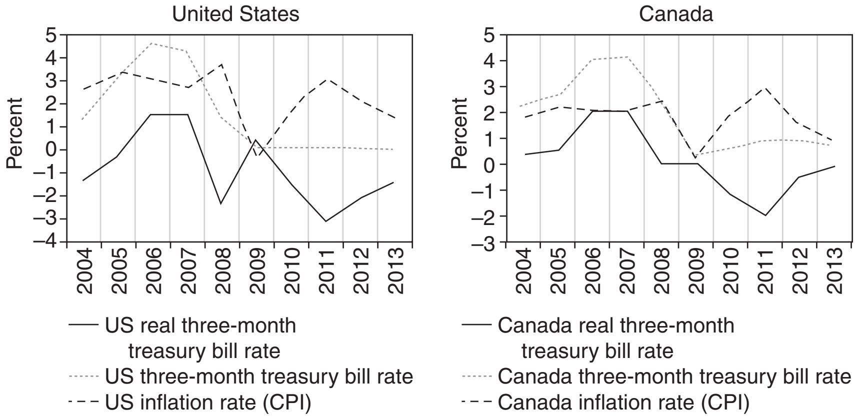

Figure 9.8 Monetary policy: movement in nominal and real interest rates and the rate of change in consumer prices, the United States and Canada (three-month treasury bill rate), 2004–2013 (sources: Board of Governors of Federal Reserve System, Historical Data, Selected Interest Rates, H-15; Bureau of Labor Statistics, U.S. Department of Labor, Consumer Price Index, All Items; Statistics Canada, CANSIM Series V122531; Bank of Canada, Data and Statistics Office, Inflation Series).

spending during that period, which merely made things worse as can be seen from the figures below for the 1930s, with the balance sheet of governments in both countries persisting in the negative range for most of the decade. As noted by Romer (2009), this was especially so during the double dip of 1937–1938 that had resulted from an attempt to reduce the previous fiscal stimulus, by reducing federal transfer payments (to war veterans) and introducing social security taxes for the first time, which all exerted important recessionary pressures and raising unemployment to 19 per cent. As Romer (2009) emphasized, this concern for a quick "exit strategy" from budgetary deficits at the time was no different than what happened by 2010 during the Great Recession. The urge to return to balanced budgets and even fiscal surpluses, especially in Canada, was politically as strong in 1937 as it was in June 2010, when, at the G20 summit in Toronto, political leaders internationally declared that the economy was on its way to recovery and thus committed their governments prematurely to return to balanced budgets. Indeed, this is so also in the case of the US government, whose discretionary net spending shows a sustained decline throughout that period after the 2008–2009 stimulus packages, when measured by its cyclically adjusted primary balance (see Figure 9.10). In the case of Canada, the overall budgetary balance of the consolidated public sector bottomed out by 2010 as well, with the cyclically adjusted surplus only slightly declining afterwards. Indeed, if one looks at the Canadian experience, the fiscal authorities never fully abandoned their

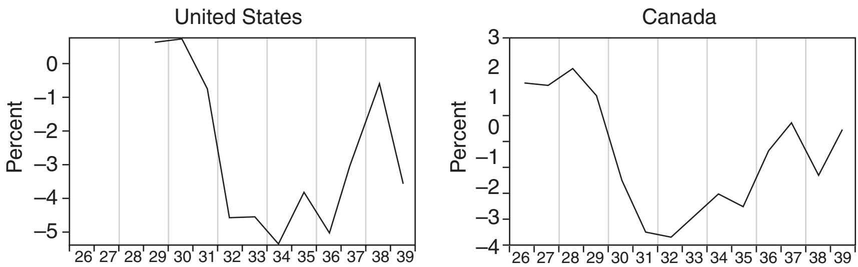

Figure 9.9 Fiscal policy: federal public sector balance of the United States and Canada as a percentage of their respective GDP, 1926–1939 (sources: FRED Economic Database, Federal Reserve Bank of St. Louis; Statistics Canada, CANSIM Series V504324 and V501756).

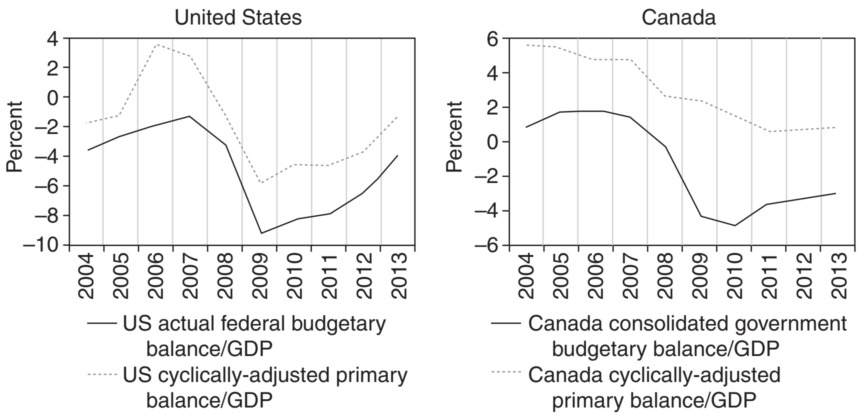

Figure 9.10 Fiscal policy: federal or consolidated public sector balance of the United States and Canada as a percentage of their respective GDP, 2004–2013 (sources: FRED Economic Database, Federal Reserve Bank of St. Louis; Congressional Budget Office, "Historical Budget Data." (August 2014); Congressional Budget Office, "The Effects of Automatic Stabilizers on the Federal Budget as of 2014." (February 2014); Canada, Federal Department of Finance, *Fiscal Reference Tables – 2014*, Table 46; www.fin.gc.ca/frt-trf/2014/frt-trf1408-eng.asp#tbl46, and Statistics Canada, CANSIM Table 385–0032).

commitment to achieve fiscal surpluses, as indicated by the persistence of cyclically adjusted primary surpluses throughout the Great Recession (see Figure 9.10).

A reading of history offers an instructive lesson not to repeat the same mistakes of relying exclusively on loose monetary policy of low real interest rates to sustain growth. Yet, with the exception of the limited fiscal stimulus provided immediately following the financial crisis of 2008, governments internationally quickly abandoned their "fiscalist" stance after 2009, and they have been vigorously seeking to re-establish an elusive budgetary balance (Seccareccia 2012). This pursuit of fiscal austerity, together with the household sector's attempts to re-establish their balance sheet positions, has resulted in continual long-term stagnation, since there is little desire on the part of business enterprises to expand investment when expectations of growth are so gloomy and plagued with "Keynesian" uncertainty. Indeed, in contrast to what Summers (2014) has defended about secular stagnation, the problem is not the lower bound in interest rates that prevents expansion because supposedly real interest rates remain above their "natural" level. Rather it is the lack of political will on the part of the fiscal authorities to sustain budget deficits, which will produce secular stagnation once again, unless another war unintentionally removes the political constraint on fiscal policy just as Kalecki had surmised immediately after the Great Depression (see Kalecki 1943; Seccareccia 2013).

The experiences of the Great Depression and the Great Recession offer an opportunity to bring the relevance of history back into the policy discourse. However, the same can be said about learning from past theories and the actual long-term historical experiences of globalization and the development process.

Learning from Canadian economic historians: the staples approach to economic growth and development

While there is much to be learned from understanding the experience of the Great Depression/Recession, in this section, I would like to take an example of the intermingling of economic history and history of economic theory in the area of foreign trade and globalization to point once again to the importance of knowing about history, so as not to repeat the mistakes of the past. I have chosen an area of research that is also well-known to John Henry, because of his years of pursuing graduate studies in Canada, especially during the 1960s when this historical approach to understanding economic development, often referred to as the staples approach, had been widely popular in Canadian economics departments.

The staples approach originates from an important intellectual tradition that pointed to the significance of institutions and the historical method in explaining economic development, which can be directly traced back to Veblen's institutionalist approach (Baragar 1996). Despite its American origin, the most innovative work was pursued by a number of celebrated Canadian economists and economic historians, who began to extend the analysis and apply the approach immediately after World War I to try to explain the economic development of Canada from the early post-contact period at the beginning of the sixteenth century until the twentieth century. Among these economists, the most notable were Harold A. Innis and William A. Mackintosh, both being prominent Canadian intellectuals who made what Mel Watkins referred to as perhaps the most unique historical contribution to Canadian political economy (Watkins 1963). These theorists had proposed a precise framework of analysis to explain the economic development of small, open economies and "newly settled" regions whose evolution would be dominated by what Innis described as "the discrepancy between the center and the margin of western civilization" (Innis 1930, 385) or what Watson, in describing Innis's broad intellectual project, refers to as an attempt to develop a "global theory of imperialism" (Watson 2006, 150). On the basis of a distinct historical methodology of analysis that emphasized hierarchical relations of power and structural asymmetries between the imperial core and the periphery, they explained not just the evolution of one specific peripheral region that is dominated by the production of a resource-based staple commodity, but also the dynamics of the whole economy, culture, and society. Their approach also included an analysis of what precise role the state can play within such an all-encompassing staple economy.

Being heavily influenced by the work of Veblen but also of J. M. Clark with his emphasis on the strategic role of overhead costs, the most innovative and prolific was H. A. Innis. Adopting the historical method, he sought to draw generalizations based on historical episodes of dominant staples exports by studying historical records, and by understanding the institutional structures, the physical geography and the nature of the productive activities (see, for a brief summary, Dow and Dow 2014). As discussed by Watkins (1963), once the international power relations are analyzed, which usually situated the region within some precise mercantile structure historically, the focus of the staple theorists was to study the nature of the specific commodity that had dominated exports during a certain historical episode, as well as the particular production relations. These, in turn, related to specific cost structures, the nature of the returns to scale, and the distinct market structures that had evolved in those industries.

Hence, the staple export industry was conceived of as the leading sector that sets the pace for economic growth, with broad economic development being a process of expansion and diversification around the export base. The staple-based economy would thus be riding the various waves of staple export demand, which would depend on the exogenous impulses originating in the international economy. When studying actual historical processes within this framework, they concluded that Canada and its regions had experienced over the centuries a whole sequence of those dominant commodity exports: fish (in the sixteenth century), fur (in the seventeenth and eighteenth centuries), timber (in the nineteenth century), wheat (in the nineteenth and twentieth centuries), and so on, including minerals, and energy products, such as oil and gas in the late twentieth and early twenty-first centuries.

Can such an export-led strategy of riding consecutive export waves be successful? To answer this question, staple theorists spent much time analyzing the nature of the specific staple commodity, that is, the physical production function relations, as well the prevailing institutional organization of production. The particular productive structure, as well as the type of institutions in place, gave rise to what Albert Hirschman (1958, 1977) and Mel Watkins (1963) referred to as "backward" and "forward" linkages (on the production side) and "final demand" linkages (on the consumption side), as well as "fiscal" linkages in terms of the role of the state in its capacity to appropriate the economic rents generated from natural resources exploitation and the nature of its spending policy (Watkins 2013). While backward and forward "demand-side" linkages are of relevance in explaining the particular spread effects resulting from the initial impetus originating from the export demand, the final demand linkages pertain to the multiplier-accelerator feedback affecting other sectors that depend on the income generated in the export sector. Watkins (1963) also addressed the so-called supply-side linkages, namely if the activity encourages or stifles domestic entrepreneurship, immigration and transfers of capital and technology, that can further reinforce distinct patterns of economic development.

Depending on the nature of these various linkage effects on both the demand and supply sides, the emergence and growth of a specific export demand can either trigger forces that lead to self-reinforcing patterns of growth domestically originating in the export sector, or to centrifugal patterns that lead to greater disparities. While the former can be associated with what came to be popularized in the early postwar economic development literature (see Furtado 1963) as François Perroux's concept of growth poles that can eventually generate sustained patterns of development through input–output linkages, the latter pattern would be associated with the growth of enclaves and a greater concentration of wealth in a few hands, often characterized by strong foreign ownership and weak fiscal linkages. For instance, many economic historians partial to the staples approach have often emphasized the importance of the Ontario wheat economy during the mid-nineteenth century and the wheat boom in the Canadian prairies at the turn of the twentieth century as examples of a staples growth process of the positive variety, especially because of the strong backward linkages and final demand linkages, that led to a broad-based virtuous cycle of high growth of a mutual-integrating nature with the manufacturing sector. In the case of the wheat boom in Western Canada at the beginning of the twentieth century, this was so because most of the export earnings were retained domestically and were spread more evenly among the prairie farmers. This led to a dynamic interaction whereby these Western farmers then purchased manufactured goods from central Canadian producers, especially agricultural implements and consumer goods, mostly based in the manufacturing heartland of Ontario and Quebec.

On the other hand, the fur trading mercantile economies during the seventeenth and eighteenth centuries in New France and late eighteenth-century British North America were examples that generated negative, centrifugal forces tending toward what Watkins (1963) regarded as a "staple trap." Resource rents leaked out of the Canadian colonies and accrued almost exclusively to a small group of financial investors behind these foreign-owned monopolies, such as the Company of New France and the Hudson's Bay Company, without any significant spread effects, especially of a final demand nature within Canada. It was also so because the dynamics of agriculture, upon whose activity the welfare of most of the resident population depended in colonial Canada, was in conflict with the fur trade, since wherever agriculture flourished it would dissipate the population of fur-bearing animals. Hence, while the wheat boom at the beginning of the twentieth century generated positive linkages or beneficial externalities, the fur trade played a more negative role that led to enclave development, that is to say, a growth that was decoupled altogether from other activities, as in traditional "dual" economies often discussed historically in the economic development literature.

While some authors such as Mackintosh emphasized the optimistic prospects of this type of export-led growth, Innis' view was somewhat more pessimistic in relying on staple production in achieving sustained growth. He feared the possibility of a staple trap, as exemplified by his study of the fur trade in Canada, as well as the wheat boom in Western Canada. Indeed, as is well known, even the more successful wheat boom eventually ended with the economic collapse of the Canadian Prairies region during the Great Depression in the 1930s, as the Western Canadian provinces were practically bankrupted, as a result of the fall of wheat prices and plummeting export earnings. For this reason, Innis felt that there was a much greater need for government, not only in the Lernerian functional finance sense, as W. A. Mackintosh was broadly comfortable with;[1] but also in the structural sense because of the inherent centrifugal forces that would tend to lead to disintegration when the staple economy is in decline.

There have been numerous international studies both historically and in recent times that have celebrated the "resource-for-export strategy" and have pointed to Canada's success by precisely referring to the staples approach. These studies often confound the broad export-led growth strategy *cum* trade liberalization that emerged after the collapse of the Bretton Woods system and the staples approach to economic development as, for instance, it is to be found in Morris *et al.* (2012). Indeed, in contrast to this broad observation of how Canada succeeded with trade liberalization, neo-Innisians in Canada have rigorously criticized the export-led strategy because of the perverse linkage effects that this strategy has generated. There are many in Canada, especially on the political Left, such as Stanford (2008), who have argued that the negative linkage effects of the expansion of the oil and resource sector on other industrial activities more than outweigh the direct short-term gains accruing to Canadians in the form of increases in employment and income in the resource sector. This is because, particularly in a financialized world, a resource boom would tend toward overinvestment owing to the feedback in the form of speculative excesses, which keeps the economy on a roller coaster ride associated with wide swings affecting Canada's growth path. However, even more significantly, it is well known that a resource boom tends to generate the Dutch disease effects on other export-oriented activities, especially the manufacturing sector, whose competitiveness is affected by exchange rate variation. These negative demand-side linkages are then further compounded by negative supply-side effects on productivity growth resulting from the disinvestment in the manufacturing sector (that is to say, a sector characterized by increasing returns to scale), while simultaneously leading to a rise in investment in an oil industry facing overall Ricardian diminishing returns.

Consequently, there are many neo-Innisians who have been critical of the export-led strategy, which began with the breakdown of the Bretton Woods system and the trade liberalization that ensued as the latter was enshrined in the Canada-US Free Trade Agreement (CUSFTA) in 1989 and then the North American Free Trade Agreement (NAFTA) in 1994. Within this new continental strategy of development, Canada was identified not as a source of manufacturing goods exports, but primarily as source of raw materials and, most importantly, energy products because of the original oil pact of 1989 to which Canada subscribed. Indeed, the implementation of NAFTA saw its manufacturing sector decline significantly (after a mild recovery in the late 1990s during the Clinton boom era) as Canada became increasingly an important energy net exporter. On the other hand, total oil production in Canada witnessed a fifteen-fold increase, while natural gas production increased by over four times from 1989 to the time of the financial crisis and crude petroleum and natural gas came to represent as much as 80 percent of Canada's overall energy exports since the mid-1990s (Issa *et al.* 2008). Hence, an increase in oil prices can induce an increase in exports of this raw material, but there are practically no spread effects in the form of backward, forward, and final demand linkages. In part, these weak linkage effects are associated with the low labor intensity of production and with the massive rents that are being appropriated mostly by transnational corporations in the oil industry, because of relatively weak fiscal linkages, with even the refining of this crude oil being projected nowadays under the controversial Keystone pipeline project to be done mostly in the Gulf of Mexico. At the same time, however, it has led to some perverse linkage effects on other industries in the export sector, especially the more labor-intensive manufacturing sector, because of the induced high demand for the Canadian dollar resulting from fluctuations in the international price of oil.

As can be seen in Figure 9.11, energy prices actually fell mildly from their peak in 1990 to their trough in 1998 (with some fluctuations up to 2002) and then rose again until the financial crisis, with a subsequent

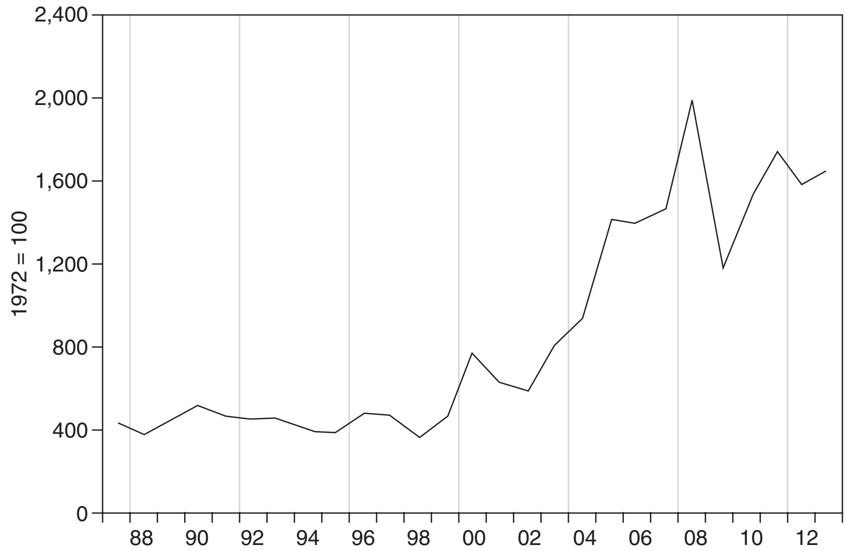

Figure 9.11 Fluctuations in energy prices with 1972 base year, Canada 1987–2012 (source: Statistics Canada, CANSIM series V52673498).

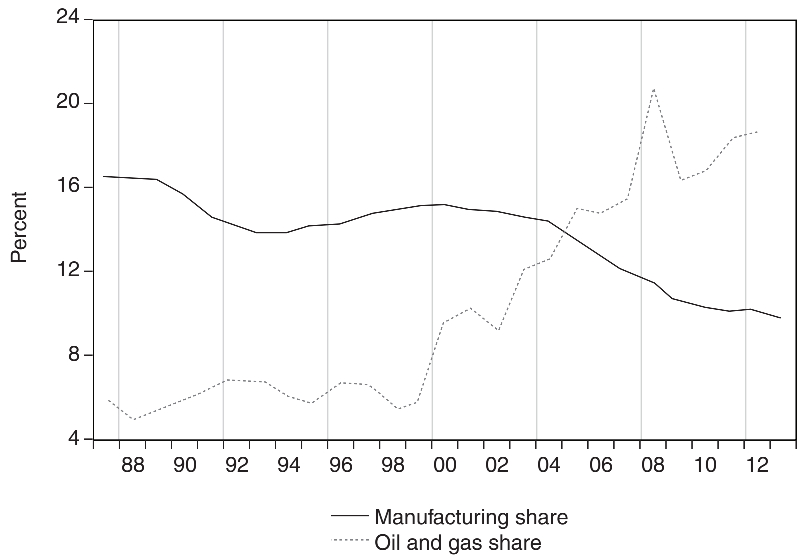

Figure 9.12 Manufacturing as a share of total employment and oil and gas as a share of total merchandise trade, Canada 1987–2012 (source: Statistics Canada, CANSIM series V13682073, V13682079, V173905, V173931, V173932).

decline and some fluctuations during the financial crisis. In much the same way, as can be seen from Figure 9.12, the share of manufacturing, despite its long-term decline, shows fluctuations that essentially mirror the movements in oil prices but in the opposite direction. Although they do not perfectly mirror each other, just from graphical inspection it would appear that, when oil prices rise, the various linkage effects through the exchange rate ultimately impact negatively on manufacturing.

There exists a very extensive literature on how a resource boom in a country leads to an exchange rate appreciation and eventually to the decline of other tradable goods sectors. Some of this literature is reviewed in Blecker and Seccareccia (2014) in connection with the issue of greater North American monetary integration. But there have been a good number of studies in Canada showing that Canada's manufacturing sector has been suffering from some of the worst ravages of the Dutch disease over the last two decades. Some of this recent research has been extensively reviewed by Lemphers and Woynillowicz (2012) of the Pembina Institute in Alberta. While there has been debate as to its significance in affecting Canada's manufacturing sector, there is much historical evidence that there exists an empirical association between energy prices and the foreign value of the Canadian dollar, which has been partly transformed into a petro-currency. This is an obvious example of a negative linkage effect taken from a recent chapter of Canadian economic history associated with the inordinate expansion of oil exports. These potential negative linkage effects and undesirable scenarios of a staple trap continue to prevail and would suggest that Canadian policy makers, as well as those from other regions of the globe, especially policy makers in Latin America, have much to learn from Canada's history of reliance on resource-based staple exports, which had been so thoroughly studied by those partial to the staples approach.

Concluding remarks

As much as one can underline the importance of learning from the past, very few policy makers hold independent policy views enlightened by historical knowledge. Instead, policy makers often reflect the views of what Galbraith (1954) referred to as the 'men of business' who, because of their near-sightedness and narrow self-interest, often advocate policies that are a threat to the economic long-term viability of the community at large. This is partly why nowadays governments in Canada, for example, remain largely captive of the oil interests and why internationally almost every government, especially in the Western world, is seeking to achieve some illusive balanced budget in order to revive the so-called "state of confidence" of these men of business. As he had emphasized (in relation to the policies being pursued during the Great Depression): "It is what causes men who know that things are going quite wrong to say that things are fundamentally sound" (Galbraith

1954, 210). Learning from the history of theories and the analysis of historical facts could potentially inoculate policy makers against the sometimes harmful advice of these men of business so as not to repeat past mistakes, whether these mistakes are about the type of macroeconomic policies to pursue during the recent financial crisis and current Great Recession or about trade policies favoring the export of one staple commodity that imposes negative linkage effects on the larger community that these policy makers ought to serve.

Note

1 W. A. Mackintosh had been influenced by Keynesian and New Deal ideas that saw government in the instrumentalist sense of achieving macroeconomic goals. This can be seen as early as 1937 in his presidential address delivered at a joint meeting of the Canadian Political Science Association and the Canadian Historical Association (Mackintosh 1937, 317–318). Certainly, in addition to his contact with Keynes during the war years and even before his drafting of the famous June 1945 Canadian government White Paper on Employment and Income, there is much circumstantial evidence that Mackintosh would have read Lerner's review article on Swedish ideas on macro-stabilization policy in the *Canadian Journal of Economics and Political Science* in 1940 with his functional finance "airplane pilot" metaphor of government (see Lerner 1940, 580).

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10 Speculative financial capitalism wacking out over an "impossible" profit rate

The infeasibility of a "usual" real average profit rate, considering fictitious capital, and its implications

Wolfram Elsner

Henry on Marx and Veblen on money, fiction, and fraud

One of John Henry's recent contributions is the reconstruction and integration of Marxian and Veblenian insights into the (theory of the) business enterprise as it pertains to the lingering global financial crisis and "Great Recession." In particular, Henry has clarified relations among money, the credit-debt system, the financialization of the non-financial enterprise, *predation* and *fraud*, and the increasing *fictitious* character of money-capital, or, what he called, a "world of illusion" (Henry 2012). Starting from the Marxian theory of value production and surplus-value distribution, and from the Veblenian theory of the finance-dominated business enterprise, he argues that the differentiation among individual profit rates (PRs) and the race among capitalists for above-average individual PRs must be based on *redistribution*—that is, value *manipulation*, cheating, deception, and fraud are just systemic features of the current capitalist system (992ff.). The increasingly "putative" character of capital valuation, as Veblen observed, makes it "incumbent ... to 'manipulate' securities with a view to buying and selling in such a manner as to gain control of ... securities" (Veblen [1904] 2005, 161). Thus, we are talking not only of just expectations, imagination, phantasies, and herd psychology, but also of fraud and deception inherent in "[business] capital ... as operative in the business of manipulation" (162).

From an integrated Marx–Veblen perspective, Henry (2012) has further elaborated not only how all *capital*, now being traded in stock and securities markets, has become *credit* of all variations, and how this is subject to "good-will" or "folk psychology" (Veblen [1904] 2005, 149, also 99ff.)—subjective (over-)estimation, over-speculation, herd phantasies, and hypes—but also how this leads to *credit inflation.*

Specifically, with absentee ownership (*à la* Veblen), financialization, and the establishment of a multi-layered and opaque *securitized debt-credit system*, the non-productive, purely nominal money-making shortcut, $M-M'$ (rather than Marx' real-value production circuit $M-C-M'$), has become the by far dominant way of making more money M' from money M by redistributing *rights to appropriate* future surplus value. The circuit of nominal fictitious capital (à la Marx), $M-M'$, based on *trading securities* and receiving interest payments, nowadays is fifteen times as large as real value production roughly measured by global GDP (see further below).

Fictitious capital dominates and rifles industrial value production, and sabotages it, not only by diverting industrial capital and surplus value into non value-producing fictitious capital, but also by appropriating increasing shares of industrial surplus value. Fictitious capital does not produce nor have real value, but has a price (the interest), as it has a right to appropriate surplus value, as Marx has elaborated in the third volume of *Das Kapital* (Marx [1894] 1970, 481ff.). But beyond that, the mechanisms of expanding fictitious money-capital (through generating and trading cascades of securities) have become largely *independent of the real economy* and, thereby, basically *infinite*, surmounting the scope and limits of value production by far. Fictitious capital does not follow the mechanism of value production but that of predation; so no limits to its multiplication (and no "natural" rate of interest, as Marx argued; Marx [1894] 1970, 350ff.; see also Freeman 2013, 186ff.).

This has aggravated in more than three decades of organized *neoliberal redistribution* of income and wealth to the top, with an increasing excess of industrial profit, private wealth, and, thus, nominal money-capital (Henry 2012, 997ff.). This money-capital then not only is applied to the generation of more money, as mentioned, and above-average individual PRs in the financial-speculation sector, but, being so huge, it also finally "goes berserk" in its *race to be applied* ("invested") for a maximal PR, $\Delta M/M = (M'-M)/M$, where ΔM, in the end, alas, needs to come from interest payments out of the industrial surplus value, and from stripping real assets.

Along both Marxian and Veblenian lines, *money* as such already is something peculiar. Despite its representations in terms of coins, notes, tradable securities, and the like, it has no physical existence, no use value (other than buying use values), which, however, perfectly serves its *quasi-metaphysical* purpose of infinite usability, of endless desire, fantasy, irrationality, mystery, superstition—that is, fiction and illusion. It is a "negation of the immediate reality of things" (Yuran 2014, 30). Thus its nominal value may expand in(de)finitely. As a social relation of invidious distinction—that is, a ceremonially warranted institution of differential status and power (Veblen), money is also a custom that is made to be the incarnation of a *social behavior of getting more out of something* (or better: "getting something for nothing by force and fraud," Veblen 1923, 442), i.e., of expansion as fictitious money-capital, and, thus, in the last instance, of *redistribution* of surplus value. As all other forms of accretion are restricted by some physical need, "we can say that in the *economy of having more*, things are desired as money" (Yuran 2014, 42, italics added).

In this way, money-capital does not need to assume the particular form of real (tangible) industrial capital in order to be *capital*, it does not need to run through the circuit M–C–M' to be capital and to accrete as capital, if it finds a way to accrete (e.g., as interest-bearing capital) in any shortcut, $M-M'$ (see *Das Kapital*, Vol. 1, Chapter 4; Marx [1890] 1970, 161ff., and Vol. 3, Section V, Marx [1894] 1970, 350ff.). Thus, money-capital also is and takes *part in the PR*; both as capital in the denominator and as surplus value appropriating in the numerator. And this shortcut is usable, under financialization, not only by financial corporations; also industrial ones do increasingly use it in addition to the value-production circuit (see below).

So here we have some fundamental factors for the calculation of a *corrected PR* and a subsequent consideration of the destructions made by financial capitalism, including its self-destruction, which are the issues of this chapter:

- a credit-debt economy that makes all real capital of the business enterprise securitized, tradable credit, which is
- subject to arbitrary good-will, i.e., endogenous structural over-speculation (which then both allows and triggers more loans, credit inflation), and,
- in an environment of four decades of neoliberal feeding up the rich and excess profits, generates cascades of tradable securities and derivatives to absorb that exploding nominal wealth,
- resulting in virtually infinite money-capital, looking for maximal PRs, and in a mechanism of inexhaustibly making more money,
- in an increasing detachment from the real economy (including, e.g., stripping of real assets, a drainage of industrial capital; in fact, the real capital base for speculation becoming relatively small), and from reality in general, i.e., from community needs and everyday life (Veblen [1904] 2005),
- further redistribution through inflating the nominal bubble, with relatively increasing power to purchase real assets and increasing rights to shares of surplus value,
- entailing, in sum, an inability to generate a historically usual average real PR (i.e., real surplus value over total money-capital value); and, thus, finally,
- a race for anything of lasting real value, which could possibly survive, with relatively little value loss, the next implosion of that bubble—i.e., resource and land grabbing, or, from $M-C-M'$ through $M-M'$ to $M-M'-C$—with the related violence and wars included.

Thus, following Marx on fictitious capital as likewise PR-seeking capital, Veblen on loan-based pecuniary (business) capital as putative value, and modern money manager capitalism, in which "business enterprises tend to become profit pirates" (Jo and Henry 2015, 30), we indeed arrived at a financial capitalism in a *permanent crisis mode* (Henry 2012, 998ff.).

Against this background, the present chapter discusses an "impossible" real, average corrected PR, calculated from the traditional PR by adding the fictitious capital to the industrial capital. As a result, a much lower corrected PR emerges, which, in contrast to traditional PR calculations, also decreases, rather than growing—in spite of growing profit masses and profit shares in GDP through the decades-long neoliberal redistribution. In the next section, thus, we will review some insights from recent traditional PR analyses. In the third section, we will have a brief look at the neoliberal political transformations, which caused the eventual explosion of fictitious capital. The fourth section will deal with the detachment of the circuit of fictitious capital from the real economic circuit. The fifth section will consider the circuit of capital including fictitious capital and argue that the PR needs to be corrected. The sixth section will provide a stylized PR with fictitious capital and an empirical calculation and comparison of traditional and corrected PRs for the United States, UK, and Germany. The seventh section will discuss implied reinforced redistribution races, followed by a conclusion.

Some insights into profitability and crisis from recent profit-rate calculations

The stylized profit rate

Specific values of the average PR do not, by themselves, allow for specific conclusions on economic conditions and development; they do not automatically trigger specific expectations, moods, or actions of capitalists, and therefore do not entail specific competitive and macroeconomic consequences. Particular values and changes are historically contingent and thus need to be considered in context. If embedded in specified socio-politico-economic micro- and macro-constellations, the average PR and its development may indicate constellations of expectations and behaviors, degrees of rivalry among the individual capitals, and, thus, macro implications and future macro developments. It thus helps analyzing crises, reinforced redistribution, and increasing *social costs* imposed on the ecological, social, political, and moral systems.

The PR, as developed by Marx in the first fifteen chapters of the third volume of *Das Kapital* (Marx [1894] 1970), reflects an average and realized (in terms of sales performed) constellation. We use the well-known form

$$PR = \frac{s}{c+v} = \frac{\frac{s}{v}}{\frac{c}{v}+1}$$

with s the surplus value, $c+v$ the sum of constant capital and variable capital, with s/v the exploitation rate (or the rate of surplus value) and c/v the value composition of capital between constant capital and variable capital.

The logic and dynamics of the PR in the context of a crisis theory, of formal modeling, quantification, and empirical research would, of course, need to be analyzed in more detail than in just our illustrative exercise. The changes of variables and of the PR in total will be illustrated below in an ordinal way only, in order to characterize a crisis of profitability and consider processes resulting.[1] An exemplary empirical (corrected) calculation will be provided.

Some recent profit-rate literature

A look at some recent literature on fictitious capital, the PR, and the development of profitability provides some insights into the antecedents, causes, and consequences of the lingering financial crisis and recession (on the new role of fictitious capital under "financialization" in general, see, e.g., Norfield 2012; Palley 2013).

Serfati (2009, 2012), for instance, has focused on the increasing dominance of fictitious capital under the neoliberal regime where there is no longer sufficient incentive to invest surplus in value production, but industrial capitalists strive rather to take the shortcut, $M-M'$, for their excess profits, through diverting surplus value but even through stripping their tangible assets. Among others, this has led to a further increasing (and more volatile) divergence between book accounting values and speculative stock-market values (on recent stock-market bubbles, see also, e.g., Keen 2013). A *crisis of profitability* on the exploding nominal capital sum (including fictitious capital) thus emerged—and in spite of *higher labor exploitation* and unprecedented *growth of the profit mass and its GDP-share*. Among others, Serfati (2009) estimated a global fictitious-capital stock of more than US$680 trillion just in over-the-counter (OTC) derivatives, and an over-speculation of equity stock of more than a $100 trillion in 2008.

Hudson (2010, 2012) also has elaborated on fictitious capital as an unproductive, neo-feudal rent(-seeking) system, and the crisis of profitability following its nominal explosion. At its core is "the hope of the financial class: to capitalize the entire surplus into debt service" (Hudson 2010, 2), i.e., monetizing s into interest i.[2] Hudson (2010) states that the full amount of fictitious capital cannot be "realized" (by a usual PR in terms of real values), although—but also because—it strangles the whole real economy, destroying its host's ability to pay. It relates to a deeply *split economy* under neoliberal financialization, with (1) simultaneous inflated (nominal values of) debt, interest-rate deflation, and asset inflation, and (2) simultaneous asset inflation and real-economy (wages and commodities) deflation. Hudson and Bezemer (2012) have added that the fictitious-capital dominance eventually causes the PR—considering increasing fictitious capital—to fall, "a pseudo-falling of the rate of profit," as they put it (4)—or what we will identify as a fall of the corrected PR.

Maniatis (2012), in an empirical analysis of the (traditional) PR, has shown that although neoliberalism has triggered a considerable *increase of the exploitation rate* (s/v), and capital-saving technological change (the "IT-revolution") has dampened for many years the accumulation of constant capital (a fall in the capital-output ratio), *even the traditional PR* "*has not recovered sufficiently* … due to the survival of lagging capitals and the increasing use of unproductive labor" (6, italics added)—that is, neoliberal redistribution into profits has *reduced the pressure on capital for innovation* or exit. Nevertheless, since all that could be monetized was reaped for capital income, the surplus mass, the surplus share of GDP, and the exploitation rate s/v continued to grow. Maniatis shows that the insufficient level even of the traditional PR is due to the overall *falling output-capital ratio* (*falling capital and labor productivities* through the growth of constant capital, the survival of lagging capitals, and the increasing use of unproductive labor), i.e., the neoliberal environment of redistribution and of feeding the profits and the rich.

In terms of size orders, the traditional PR of the corporate sector, as given by Maniatis for the United States, was on average around 15 percent (net) for the "golden age" of capitalism (1948–1968), around 10 percent for the Keynesian period (1969–1982), falling over that period, and around 10 percent again over the neoliberal period (since 1983), however slightly increasing (but insufficiently recovering) over this period until 2007. Note that, during the neoliberal period, the result was increasingly due to the *high profits of the financial sector*, while the *industrial sector faced a clearly declining PR*. Note that this analysis still is confined to conventional constant capital in the denominator.

Also Basu and Vasudevan (2012), in another calculation of the traditional PR, state that *excessive capital has become "obese" and "idle"* and increased, in spite of real-economic slack and real-investment failure, through continuing redistribution into capital and profit, and an increased exploitation rate. But they also notice the self-multiplication of fictitious capital through a growing bubble. They measure the traditional PR, for instance, with (traditional) gross capital (the sum of fixed assets, raw materials, unfinished and finished commodities in stock, corporate money, and depreciation funds).

In terms of size orders, for instance, for *gross* total fixed assets and *gross* profits *after tax*, the traditional PR increased, under the neoliberal redistribution process, back to the levels of the golden age (mid-1960s), i.e., between 11 and 16 percent, from the 1990s to 2007. And, in fact, the PR *after tax* grew faster than before tax—neoliberal redistribution at work.

Notably, Freeman (2013) has calculated a *corrected PR*, *including corporate financial assets*, which results in a considerably *lower* PR—around a third for the United Kingdom and somewhat above the half for the United States (each for 2006) of the traditional one, but continuously *declining*, even over the neoliberal period. This is what we had expected earlier for a corrected PR (see Elsner 2012) and had calculated for Germany (the size order of a fourth, also declining; see Elsner 2013).

The origin of the profitability crisis: neoliberal transformation as redistribution

The elements of the neoliberal transformation of capitalism from a predominantly value-producing to a predominantly rent-seeking, appropriating, and redistributing system—a planned secular political-economic and state-bureaucratic project with its then new models of markets, competition, the state, and money—are well-comprehended today in terms of their theoretical and political antecedents, measures, and consequences (e.g., Mirowski and Plehwe 2009; Palley 2012; Schoenbaum 2012). In this section, we sketch some elements and their relevance for the PR.

The *"de-regulation" of markets*—according to the thought-experimental chimaera of an optimal and self-stabilizing mechanism, stridently misconceiving and misrepresenting real-world structures—dramatically accelerated the self-degeneration of real markets, further boosting concentration and centralization, powerization, and structures of interrelated narrow oligopolies in all sectors, in a secular effort to put further pressure on wages ($v\downarrow$) and boost profits ($s\uparrow$).

"Globalization," allegedly the promotion of international competition, but in fact the (mutual) opening of home markets for the most overaccumulated foreign rivals in the metropolises, to provide them new action space (sales, investment, and labor control) to have labor and natural resources of the world increasingly controlled by an oligopoly of financial-industrial conglomerates. Beyond mutual intrusion, this generated an exclusive layer of capital action, capturing their control over labor worldwide, lowering relative variable-capital value ($v\downarrow$) on a global scale, and putting narrow oligopolies above the states. This neoliberal project was designed to exclude the rest of society and societal organizations, including the states themselves, from any similarly effective organization and action capacity at the global level, thus deliberately and effectively preventing any future institutional re-embedding of capital interests into societal and state structures.

Privatization further fed the PR through underpriced sales of public wealth and utilities that were developed over the past century, usually with well-established, state-guaranteed and state-protected, highly profitable production and sales fields (with each millions of dependent households). It further strengthened surplus values of narrow oligopolies ($s\uparrow\uparrow$). The neoliberal governments shoveled large amounts of underpriced and highly profitable constant capital (c) into the largest capitals' value productions, which generated high amounts of safe surplus, while, on top of that, existing facilities and infrastructures often were stripped down in the longer-run.

Labor market (de-)regulation, the promotion of labor-saving technological change ("innovation policy") and of labor self-employment (the neoliberal "entrepreneurship" paradigm) further reduced the value of variable capital ($v\downarrow$) in manifold ways (while the reproduction costs of labor correspondingly had to be shrunken through an emerging low-price retail economy, externalizing and social costs and, particularly, environmental costs of global commodity traffic; see, e.g., Ramazzotti *et al.* 2012).

The *political* paradigm changed toward *austerity*. Restrictive austerity-oriented ("anti-inflation" and "balanced-budget") fiscal and monetary policies were pushed, on the background of the stagflation specter assigned to "Keynesianism." In particular, *tight monetary policy* (against wage increases, while banks receive enormous quantitative easing) was made center-stage. It was established as the most powerful policy area and toolset ever, notably (as first implemented in the "Hayek–Pinochet" constitution of Chile) put strictly beyond and above the political (parliamentary) area—and assigned to the new mega-powers of central banks (CB), to stabilize and feed private banks' balances (also, e.g., Wade 2013).

Finally, a countless number of measures in the fields of *taxes* (tax exemptions, tax havens even in the metropolises, etc.), *public expenses* (public procurement, subsidies, mission oriented research, military spending, etc.), *social insurance* stripping, elitist restructuring of public decision-making (new non-public bodies and secret decision-making), etc. were established in a long-run effort to further redistribute income, wealth, public property, power, and prestige from bottom to top. In all, this paved the way toward post-democracy, with the enabling myths of "efficient markets," "private" over "public," "global competition," "innovation," "entrepreneurship," public-budget "consolidation," and the alleged inferiority of any collective rationality and collective decision-making, and of the principles of publicity and commonality in general. Margret Thatcher put the message most dully, crudely, and brutally: "There is no such thing as society."

Neoliberalism (neither "neo," new, nor liberal in any reasonable sense for common people), thus, enforced a counter-revolution from the mid-1970s onward against the Keynesian welfare state.[3] The latter not only had pushed (through its very high economic growth) oligopolization and over-accumulation, but also had strengthened workers' ability to increase the wage share, with, overall, a resulting decline of the PR. However, by its very means and mechanisms in favor of the top layers of the capitalist class—redistribution, powerization, financialization, comprehensive rent-seeking for interest income and fast M', and subsequent multiplication of fictitious capital—neoliberalism has, in spite of considerable profit expansion and increase of the profit share in GDP, drastically *reduced the true (corrected) PR*—and continued, rather than reversed, its *fall*. Such a dominance of fictitious capital was hardly predicted and analyzed earlier. Neither was capitalism's subsequent degeneration into a system of drainage of both the productive economy and the resources of the earth.

The crisis of 2007 onward, thus, appears as a *reflection of massive over-accumulation of capital (including fictitious capital) and of its reduced profitability*, where all capital together can no longer yield a usual real average PR, regardless of an increasing growth rate of the nominal bubble. *Credit defaults* then necessarily occur and increase, trigger a whole *chain of defaults*, capital gets scared and shy, asset values implode, capital hides away, escapes into tax havens, and gets hoarded for some time. This crisis of profitability becomes obvious from the early 1990s onwards, through a *corrected PR*. It occurred, when the de-regulations of the speculative sector during the 1980s had reached a critical intensity, caused exploding volatility (see, e.g., Chen 2010) and the fictitious capital to explode, and ended the gold-rush phase of neoliberalism in terms of profitability (see, e.g., Freeman 2013, 177).

This, in turn, has triggered a reinforced rivalry and shift between the shares of industrial and financial capital in total capital and in the surplus value, as the established claims of the most powerful financial corporations of a PR of 20 or 25 percent has become increasingly incompatible with such a low average real PR.[4] The *reinforced redistribution* requirements include, but eventually also exceed, the redistributable amounts of profits of the minor capitals, of the whole industrial surplus value, of industrial tangible capital, of the money-capital collectable from wealthy individuals, of the wage sum, of the public budgets—and eventually even the capacities (i.e., the "moral" limits) of the CBs to provide ever more fresh money-capital. Thus, the race for profit shares and above-average PRs has to proceed not only to a comprehensive income and asset stripping but eventually to the plundering of all those real assets of the earth that have any durable and potential future value. Thus, before the bubble implodes next time, the "proof of the nominal pudding" must be performed, i.e., as much as possible of the fictitious capital transformed into, and realized in, real values. A race to the last resources and usable land is triggered.[5]

Self-degeneration of the markets, real-economic slack, financialization, and the explosion of fictitious capital

As a consequence, de-regulated and dis-embedded markets have entailed intensified over-complexity in terms of causing more uncertainty, volatility, and turbulence. This further pushed *short-termism* and short-run exploitative, grabbing and just *redistributive* behavior at the expense of long-run real investment and productive industrial effort. This, in turn, entailed an increasing real economic slack and continuing poor GDP growth rates. More *frequent and deeper financial and economic crises* occurred after the full establishment of neoliberal de-regulation of the financial sector by the mid-1980s (see Chen 2010, 151ff., 173ff.), such as the stock market crisis in 1987, the Japanese slack since 1986, the Asian crisis in 1997–1999, the Russian crisis in 1998, the Dotcom-crisis in 1999/2000, the Argentinian crisis in 1999–2002, and the global crisis since 2007.

Unleashed markets in fact degenerated into an unprecedented *power* system, unpredicted even by the wildest conspiracy theories: The 40 largest financial conglomerates have come to control, in a multi-layered system, the 43,000 largest international corporations, according to a study of ETH Zurich, the largest international corporate-network study based on the largest corporate data set ever (Vitali *et al.* 2011). According to this study, it has become a closed shop of mutual control, uncontrollable itself from outside, be it neoliberal governments or CBs. Personally involved are only a few hundred top-rank individuals worldwide, and some few hundred mega-rich private individuals as shareholders and creditors. Any earlier conspiracy theory turned out to be a harmless bedtime story compared to the neoliberally created reality. Of course, such concentration and centralization does not diminish the fierce rivalry for maximal above-average individual PRs.

Real-economic slack has been made structural through the extreme redistribution of wealth, income, and power, with relative domestic under-consumption—if the latter were not pushed, for some time, by mortgage-backed crediting (United States)[6] or an extraordinary phase of proportional wage increase concurring with the profit push for some time (Greece). It entailed continuing domestic under-investment in real value production.[7]

The example of the German wage ratio may provide an idea of the size order of income redistributed: The ratio had been shrunken through government measures by 10 percentage points of GDP within twenty-five years. It has been calculated recently that only between 2001 and 2012, under neoliberal “social democrats” and “greens,” around 1 trillion € (which is roughly half of an annual GDP) has been redistributed through reducing the wage share (see Memorandum 2013, 6).

The less the real economy provided opportunities for real investment, the more even conventional manufacturing corporations became financial speculators, as this promised *higher* PRs than those achievable by conventional real-value production under real-economic slack. Thus, an accelerated *drainage of the real economy* emerged. Rather than PRs of, say, 10 percent (after tax) through real value-production (see Maniatis 2012; Basu and Vasudevan 2012), they were after 20 or 25 percent, as yielded in the exploding speculation industry then.

As another example, the world exports vice-champion, Germany, had a foreign-trade surplus 2000–2012 of about €1.4 trillion. Thereof around €1 trillion—rather than being re-invested in industrial capital and fairly diffused into domestic final demand (wages/private consumption, investment, public education/economic and social infrastructures)—were immediately returned into speculation in the US financial sector, with a final loss through the crisis of *c.*400 billion €. This is why the German banks have turned out to be—even after years of crisis, after some adaptation of equity capital, and much outsourcing of junk securities to the ECB and other bad banks—and still are among the most over-speculated and vulnerable ones in the Eurozone and the OECD.

Note again that the self-drainage of industrial capital has reached historical highs but is not confined to surplus re-dedicated to financial speculation, and industrial capital turned into fictitious one, but also includes historical highs of drainage by top-management's salaries and bonuses, and shareholders' dividends, which, in turn, explains the contemporary explosion of luxury consumption.

As a final example, also for Germany, according to a recent calculation, a *real-investment gap* has cumulated to around €1 trillion since 1999 and real-investment slack causes a *gap of 0.6 percentage-points of GDP growth p.a.* (DIW 2013).

In all, the World Bank's *World Development Reports* have repeatedly shown that the most *uneven distributions* have been created in recent decades in every dimension (personal, functional, social, inter-regional, international, etc.), compared to any time since 1800, from whereon data could be reconstructed.

"Financialization" and the dominance and explosion of financial "investment," in face of real-economic slack, generated a cumulative growth of the credit-debt economy, and a stocks and assets inflation (going together, as said, with the stripping of real-capital assets to increase money-capital and to draw out interest payment)—a growing *bubble* increasingly *independent of its fundamentals* (see, e.g., Binswanger 2000; Keen 2013). It generated unprecedented high individual PRs in the largest entities of the speculation industry through the creation of that bubble of "structured" and "derivative" nominal claims ("securities")—including unavoidably, systematically, and increasingly "subprime" and other "toxic" content (mortgages, bonds). When such bubble implodes and the interest rates still have to be paid, the debtor will be in even greater need for new credit. A comprehensive creditor-debtor economy at work.[8]

Therefore, while interest rates deflate (because of the inflating supply of nominal credit), asset prices inflate through the oversupply of PR-seeking money-capital. Inflation in the speculative areas and deflation of the real economy (wages and commodities) indicate, as said, a deeply split economy.

The unleashing of the speculative sector, based on decades of an historically unmet redistribution, caused, through a number of interconnected channels, a *reinforced* and perpetuated *redistribution* from bottom to top (small versus large capitals; large institutionalized versus smaller individual speculators; further squeezing of the wage sum, of public property and budgets; poorer versus richer regions and countries, etc.). Consequently, *fictitious money-capital exploded*, before and again already after the financial meltdown in 2007.

A modified capital circuit: fictitious money-capital as capital

A "new" capital circuit—under the conditions of an enormous increase and concentration of income and wealth centered on interest income, asset stripping, and securities trading, of an ubiquitous securitized credit, of cascades of securitization, and of a relatively independent self-multiplication of such fictitious capital—has been a focus of analyses from Marxian and Veblenian perspectives (e.g., O'Hara 2007, 2009; Rochon and Seccareccia 2013; Freeman 2013). As Freeman (2013) has particularly calculated a corrected PR, we will refer to his argument.

While the traditional PR showed a reversal of the previous trend of the Keynesian welfare-state constellation and an upswing since the neoliberal turnaround at the end of the 1970s, Freeman notes that this is "the only unambiguously positive indicator of economic health" (2013, 168), as investment, GDP, or employment have lacked any comparable dynamics in most developed neoliberal economies since then. But why and how should a growing PR be sustained over a longer period under lasting real-economic slack? Must accumulation of profit, mostly in the form of fictitious capital, without any real-economic dynamic, not squeeze the PR sooner or later?

Freeman (2013) substantiates that fictitious capital is profit-seeking *capital* as well:

- "[T]he value advanced by capitalists is tied up in all phases of its circuit: not only in machinery, buildings, raw materials and inventories, but also money balances, hoards, and financial investments … money is in this respect no different from inventories or stocks of unsold goods … money has come to be held in the form of marketable assets and … holdings of them by capitalist enterprises has grown … massively" (170). Thus, it must be included in total capital in order to calculate a true (corrected) PR.
- Marx had indeed considered industrial profit, commercial profit, interest, and land rent equivalent forms, where industrial surplus value may be distributed to as different forms of profit (sections IV–VI of the third volume of *Das Kapital*, Chapters 16 through 32, and 37ff. for land rent; see Marx [1894] 1970, 278ff.). And if we agree that the financial sector does not produce value, it should nevertheless be recognized that its money-capital competes with industrial (and commercial and land) capital for appropriating surplus value, i.e., for a maximal PR (see also Freeman 2013, 173).
- After the full establishment of the credit-debt economy, financial assets function as *money*, and in securitized forms, also have become a *commodity*. Although it is not value producing, thus has no value, it

does have a price. Thus it is constituted as *capital*, competing for a maximum PR (180). And as also most industrial corporations have become financial holding companies, displaying considerable activities in financial speculation, the financial assets of the whole corporate sector should be included in the denominator of a corrected PR (175ff.). [The corporate sector as a whole in the UK indeed has acquired more financial than industrial assets since 1998 (176).]

- The financial sector diverts capital from its potential industrial application and accumulates rights on the surplus value, attracting streams of revenues and ever larger shares of corporate profits, by multiplying itself with basically no limits. Thus, industrial and fictitious capitals, though subject to different mechanisms, are "part of the *same* process" (183), and fictitious capital "therefore bears down on the profit rate" (189).

Note that the global fictitious-capital circuit has already gained a nominal size of more than fifteen times the size of the global GDP. At some point of inflating this bubble, and particularly after the historical experience since 2007, credulity in infinite inflation of the bubble can, in fact, no longer be presumed by the speculators (although this may not bear on their behavior, as this is determined not by insight but by their rivalry). So, while they may be content with their "speculative" PR (just more money from money), they will factually get in bad faith sooner or later and critically have to assess the risk-weighted value of their purely nominal assets and rights. So they will have to relate their nominal face values to the existing real values that they can possibly get, and, therefore, will have to calculate a viable, "true" real PR, as it might be after the next implosion of the bubble. The corrected total constant capital stock, the sum of traditional industrial capital and fictitious capital, $c_{corr} = c_{trad} + c_{fict}$, will then provide for a corrected PR: $PR_{corr} = s/(c_{corr} + v)$.

The impossibility of a historically "usual" average real profit rate

A stylized corrected profit-rate constellation of late neoliberalism

A symbolization of the development of a corrected PR, PR_{corr}, under the late neoliberal constellation, may be as follows:

$$PR_{corr} = \left[\frac{\left(\frac{s\uparrow\uparrow}{v\downarrow} \right)\uparrow\uparrow\uparrow}{\left(\frac{c_{corr}\uparrow\uparrow\uparrow}{v\downarrow} \right)\uparrow\uparrow\uparrow\uparrow + 1} \right]\downarrow$$

(with $\Delta v<0<\Delta s<\Delta c_{corr}$ as necessary conditions for changes of numerical values). The corrected, larger capital size c_{corr} will cause PR_{corr} to be considerably smaller than PR_{trad}. Its particular growth dynamic, in addition, will cause PR_{corr} to fall, in spite of a growth of surplus, and even when PR_{trad} still may increase.[9]

An "impossible" average real profit rate

The explosion of fictitious capital is indeed already *empirically indicated*—against a background of *c.*\$250 trillion of fluid personal wealth stocks (of the "very high potentials"), as currently estimated by different banks and insurance companies (which is not "capital," by definition, insofar it is not held by the corporate sector)—by *c.*\$650 trillion nominal value of derivative papers (OTCs) (slightly reduced compared to the value 2007; according to Bank of International Settlement (BIS) statistics 2013; see, e.g., Bjerg 2014, 197ff.)—and these are currently expanded again by JPMorgan Chase, Morgan Stanley, and others (see WSJ 2013)—*c.*\$60 trillion of CDS, furthermore the "bubble portions" of stocks, precious metals, real estate, etc. What of this can be added up into the fictitious-capital stock still can only be roughly estimated. Furthermore, it has been estimated that up to 60 percent of money-capital might be "invisible" in any statistic, i.e., it is offshore money-capital hoarded in tax havens (see, e.g., Tax Justice Network 2012). So what would the true size of global fictitious capital be? Judged from those indications, we probably are not completely wrong assuming more than \$1 quadrillion (10^{15}) global fictitious-capital stock. In fact, \$1.2 quadrillion have been estimated as global nominal money-capital by the BIS for 2013 (see Bjerg 2014), while the global GDP currently is *c.*\$75 trillion. If the latter would be completely considered the surplus value (gross and before tax, including the funds for variable capital), and the \$1.2 quadrillion total capital, the global average PR_{corr} would be 6.25 percent—which would indeed be historically low, roughly between a half and a third, compared to the order of magnitude in the literature on the PR_{trad} (see above). Note that if we considered around \$40 trillion global wage income (v, before tax, in this case paid out of s) and added it in the denominator, this would not change the rate significantly (to 6.05 percent).

Thus, a general impossibility of a "usual," historically known, average "real" PR becomes conceivable. Such a "true" PR is unacceptable for the big capitals in both the speculation and industry sectors. As they have to rival for a maximal PR, it becomes comprehensible that their rivalry has become reinforced.

An empirical illustration: traditional and corrected profit rates for the United States, United Kingdom, and Germany 1991–2013

We have made some exemplary calculation of the PR_{corr}, largely in consistence with the calculation of Freeman (2013, 169ff., 190f.), using official national and OECD data (as described in Appendix 2) for GDP, fixed assets, wages, and financial assets (assets are gross, before tax, and in current prices). We have somewhat simplified the formula, using just the GDP for the numerator (being aware that this includes labor incomes and annual investments), which may cause some level shift of the PRs calculated. But we are not interested in the particular levels of the PRs but, first, in the change of the size orders between the PRs_{trad} and PRs_{corr}, and, second, in their different developments over time. Furthermore, we stick to a strict annual-flow approach.[10]

The results indicate, among others, that the PRs_{corr} are just somewhat below a fifth (United Kingdom), above a third (Germany), and clearly below a third (United States) of the PRs_{trad}. It indicates that the United Kingdom has by far the relatively largest financial speculation sector (followed by the United States, then Germany), but a relatively high profitability of the (relatively small) industrial sector (followed by Germany and the United States). While the PRs_{trad} largely remain in their size orders over the twenty-three years (with some losses before, but also some recoveries after 2007), the PRs_{corr} have clear tendencies to fall over the whole period, with the largest decrease in the United Kingdom (indicating the largest increase of fictitious capital), but with some stabilization for all countries from 2008 onwards, indicating no spectacular increase, but stabilization of fictitious capital after 2007. So the PRs_{corr} indeed indicate a considerably smaller real average profitability on total capital, in ranges between 20 and 7 percent (United Kingdom) over the twenty-three years, 10 and 7 percent (United States), and 16 and 10 percent (Germany). The relative success of Germany (with the highest PR_{corr} since 2006) seems to confirm that Germany indeed suffered least through the great recession, even if its fictitious capital is considered. Note that the largest reductions in the PRs_{corr} appeared already in the 1990s, a gold-rush phase of neoliberalism with the relatively largest build-up of fictitious capital, while the dotcom crisis and the great financial crisis of 2007 have destroyed some fictitious capital and thus stabilized the PRs_{corr} (the dotcom crisis did that only for two years). For a graphical overview, see Figure 10.1.

The result suggests that the great crisis 2007 has indeed been a *crisis by total-capital over-accumulation*, fed by three decades of redistribution to the top, and corresponding *lacking overall profitability*. It is, however, not a profitability crisis in the sense of too little profit mass or profit share in GDP so that profit would be absolutely missing for investment in constant or variable industrial capital. Rather, fictitious capital has dominated and strangled conventional capital and its surplus and has exploded, so that average profitability deteriorated. The important implication here is, however, not the declining average profitability as such, but what this entails for individual capitals' behavior.

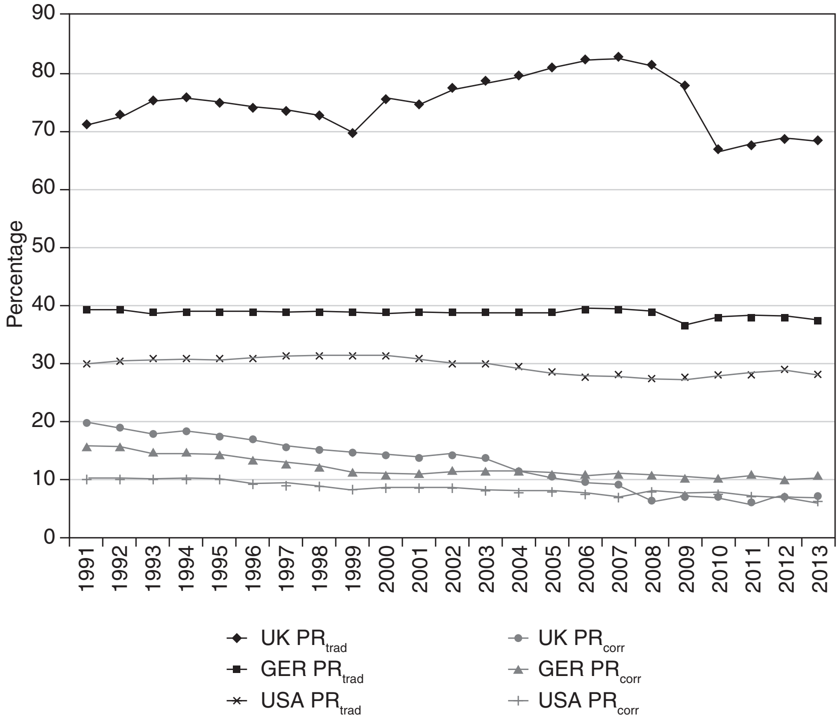

Figure 10.1 PRs, traditional (uncorrected) and corrected, United States, United Kingdom, and Germany, 1991–2013.

Reinforcing redistribution—and draining the resources of the earth

Reinforced redistribution

Such a low average PR, in fact, exacerbates rivalry and redistribution among individual money-capitals, and further, of course, between money-capital on the one hand and labor, state budget, public productive stock and infrastructures, and the remaining global real resources on the other. As a standard PR requirement of the largest financial entities has been 20–25 percent in pre-crisis years, consider the additional redistribution required to maintain that, compared to the average possible yield of clearly below 10 percent.

PRs, of course, are never guaranteed, in the course of a crisis. With exploding financial balances and deteriorating real-economic conditions, those standards have no longer been realizable even for big players. Rather, we often now observe comparably low PRs in many areas of financial speculation, bank crises have become virulent in many countries, and financial turbulences are lingering globally. But so much *the fiercer the redistribution race* will be—as the fictitious money-capital stock has remained large throughout the crisis (the PRs_{corr} remained constant, see above), by way of government bail-outs and CBs' money-capital supplies, and has even been growing again in recent years. This explains reinforced redistribution between the profits of industrial versus fictitious capitals. But this also includes millions of private financial speculators, and the top financial players, of course, deliberately allocate highly risky versus less risky securities among themselves and the others.

And big capital amounts that had been hidden away in tax havens and hoarded have returned to speculate for high PRs. An argument of JPMorgan Chase and Morgan Stanley for launching CDOs again in 2013, including usual high-risk tranches with 25 percent yields, was that there is so much private yield-seeking money "out there," and back, that this just had to be done again. And, indeed, the high-risk tranches were sold within hours (WSJ 2013). So blowing up the bubble and accumulating nominal rights for property or interest payments is part of the game, and owning a low-risk portfolio with relatively little loss, when the bubble bursts, remains, of course, a redistribution vehicle.

Transforming fictitious capital into real-values before the bubble bursts: draining the resources of the earth

Beyond such "risk allocation," fictitious money-capital needs to be transformed into something of "real" value that is capable of surviving the next implosion of the bubble with relatively little loss, or that relatively quickly recovers and increases in the long run, across the bubble cycle. Thus, fictitious money-capital must be based on values that can become future surplus-generating capital. One option is a further transfer of the (relatively little) remaining public wealth and facilities into private industrial capital. For instance, many of Greece's public companies and large infrastructures have been sold, in the frame of the Eurozone crisis management, to the leading German monopolies. They also still hope for major privatization waves in Russia. But as privatization is largely exhausted and no longer provides much extractable real capital for future high PRs, the appropriation of all potential real-value stocks of the earth has come into the focus of private appropriation and absorption into the PRs. Capitalism in that way is returning to its bloody *resource- and land-grabbing* roots of primitive accumulation (see, e.g., Harvey 2003, 137ff.; 2010, 244ff.; Liberti 2013).[11] The money-capital circuit thus appears to be transformed once more, from $M–M'$ to $M–M'–C$. Speculation on anything that will have some real value in the future (as it will be needed by humankind for future survival) is therefore what we can observe today—after the drainage of industrial capital and the drainage of public property, now a *drainage of the entire earth.*

A conclusion: no way out other than…

Bailing out and saving the speculation sector through neoliberal public intervention, and guarding their mega-rich private shareholders and creditors against any contribution for the costs of the crisis have prevented fictitious money-capital from major devaluation, which would have been done by the "market" if such thing existed. But a classical capitalist crisis, the required meltdown, related downward value correction, the necessary structural change, and re-redistribution have been largely prohibited so far, and, thus, there is no "solution" for the small and falling PR. Capitalism will thus further degenerate, remain in an unstable crisis mode, and linger along a close-to-zero-growth—while society and natural environment further deteriorate.

Thus, considerable values are still at risk, which may further increase. In 2009, the EU Commission found in a confidential document that 44 percent (around €18 trillion) of the then existing nominal assets of the EU banks were toxic and nonmarketable.[12] This portion may have declined recently through their transfer into the taxpayers' pockets (the CBs and other "bad banks," or public budgets), but may also have increased through the continuing real-economic slack. The amounts of fictitious capital will have to be drastically devaluated in order to restore the working of an economy.

The amounts claimed for further redistribution to maintain historical "standard" PRs for the big financial players, given the size of their fictitious capital, already exceed the redistributable wage sum, industrial surplus value, and public budgets and property values, and may even exceed the potentials of the CBs, whose zero-interest-rate policies have come to a limit and whose quantitative-easing policies may quickly come to a "moral" limit. Thus, since the limits of traditional redistribution have already been approached, the run for future real values in the earth's natural stocks has become so virulent.

Without a new *secular re-redistribution project*, freeing the real-economy from "obese" excess fictitious capital, freeing economy and society from the bottleneck of the PR in general, and thus making economy and finance workable for society and nature, there will be no way out of the lingering crisis and future double and triple dips. Neoliberal redistribution has been a seventy-year-long political-economic project, realized through practical policy for nearly four decades now. There is no way out other than to reverse that very process in the same dimension and strictness in order to regain the chance to restore a functioning productive real economy. On this way, a "boring" credit sector for the real economy, which provides solid credit for industrial production under solid circumstances and with solid conditions, with very moderate PRs, needs to be created, independent of the speculation sector. Although a speculation sector might be allowed to further exist, it should be strictly separated from the credit sector. The remaining speculation sector needs to be strictly confined to a gambling for own account of the super- and mega-rich and their special organizations, in a first step, with the slightest public bail-out strictly prohibited.

In all, a corrected PR investigation as suggested here appears to be fruitful to contextualize and explain important antecedents and consequences of the crisis. It appears worthwhile to continue investigation along these lines.

Acknowledgments

The chapter has been presented at several occasions. Thanks are due to Christoph Scherrer, Beat Weber, Daniel Muegge, Claude Serfati, the editors of this volume, Tae-Hee Jo and Fred Lee, and two anonymous reviewers of this chapter for useful comments. Thanks also to the discussants at the EAEPE summer school in Rome 2013. A preliminary version was published in the *real-world economics review* 62 (Elsner 2012), and I gratefully received useful comments from Edward Fullbrook, an anonymous reviewer, and some readers. An earlier version of the chapter was published in a special issue of the *International Journal of Pluralism and Economics Education* (Elsner 2013); thanks for comments to the SI editor, Dennis Badeen, and two anonymous referees. Further, I am grateful to my assistants and (ex-) PhD students: Prof. Shuanping Dai, Yasar Damar, Dr Torsten Heinrich, Dr Henning Schwardt, and Dr Yanlong Zhang. Shuanping provided the formulation of some general algebraic conditions for PR changes as given in Appendix 1. Witalij Efa provided the empirical calculations and the graph of the figure.

Appendix 1

Some general logical conditions of the PR(π) to increase or fall

$$\pi' = \pi + \Delta\pi = \frac{s'}{c' + v'} = \frac{s + \Delta s}{c + \Delta c + v + \Delta v}$$

and

$$\Delta\pi = \frac{s + \Delta s}{c + \Delta c + v + \Delta v} - \frac{s}{c + v} = \frac{(c + v)(s + \Delta s) - s(c + v + \Delta c + \Delta v)}{(c + v)(c + v + \Delta c + \Delta v)}$$

$$= \frac{\dfrac{\Delta s}{\Delta c + \Delta v}(c + v) - s}{\dfrac{(c + v)(c + v + \Delta c + \Delta v)}{\Delta c + \Delta v}}$$

In order to explain the intended resulting value (i.e., the algebraic sign) of $\Delta\pi$, we may consider the different combinations of the terms of the numerator and denominator.

The sign of change of the *PR*, $\Delta\pi > 0$ or $\Delta\pi < 0$, is determined by the values of

$$\frac{\Delta s}{\Delta c + \Delta v}(c + v) - s \text{ and } \frac{(c + v)(c + v + \Delta c + \Delta v)}{\Delta c + \Delta v}.$$

Four general conditions can be derived from this:

1 If $\Delta c + \Delta v > 0$ and $\dfrac{\Delta s}{\Delta c + \Delta v} > \pi$, then $\dfrac{(c + v)(c + v + \Delta c + \Delta v)}{\Delta c + \Delta v} > 0$ and $\dfrac{\Delta s}{\Delta c + \Delta v}(c + v) - s > 0$, then $\Delta\pi > 0$.

2 If $\Delta c + \Delta v > 0$ and $\dfrac{\Delta s}{\Delta c + \Delta v} < \pi$, then $\dfrac{(c + v)(c + v + \Delta c + \Delta v)}{\Delta c + \Delta v} > 0$ and $\dfrac{\Delta s}{\Delta c + \Delta v}(c + v) - s < 0$, then $\Delta\pi < 0$.

3 If $\Delta c + \Delta v < 0$ and $(c + v + \Delta c + \Delta v) > 0$, and $\dfrac{\Delta s}{\Delta c + \Delta v} < \pi$, then $\dfrac{(c+v)(c+v+\Delta c+\Delta v)}{\Delta c+\Delta v} < 0$, and $\dfrac{\Delta s}{\Delta c+\Delta v}(c+v) - s < 0$, then $\Delta\pi > 0$.

4 If $\Delta c + \Delta v < 0$ and $(c + v + \Delta c + \Delta v) > 0$, and $\dfrac{\Delta s}{\Delta c + \Delta v} > \pi$, then $\dfrac{(c+v)(c+v+\Delta c+\Delta v)}{\Delta c+\Delta v} < 0$, and $\dfrac{\Delta s}{\Delta c+\Delta v}(c+v) - s > 0$, then $\Delta\pi < 0$.

Appendix 2

Data from national accounts for PR calculations (traditional/uncorrected and corrected) and results: United Kingdom, Germany, and the United States (1991–2013).

TABLE A

United Kingdom

Year	*A*	*B*	*C*	*D*	*E*	$UK\,PR_{trad}$ (%)	$UK\,PR_{corr}$ (%)
						$A/(B+C+D)$	$A/(B+C+D+E)$
1991	647,966	567,400	52,200	291,968	2,318,034	71.08	20.06
1992	672,170	567,500	49,300	303,067	2,646,013	73.07	18.85
1993	707,734	581,100	48,300	310,217	3,066,461	75.32	17.67
1994	745,196	611,600	50,400	321,715	3,065,230	75.75	18.40
1995	782,979	652,500	53,900	335,885	3,507,498	75.12	17.21
1996	836,189	720,100	57,700	351,454	3,843,590	74.05	16.82
1997	878,780	761,500	61,400	374,209	4,532,084	73.41	15.34
1998	923,294	796,600	74,400	407,138	4,796,890	72.24	15.20
1999	963,196	863,100	81,300	432,706	5,293,243	69.94	14.44
2000	1,023,512	821,900	72,100	462,866	5,947,185	75.43	14.01
2001	1,062,262	855,400	73,700	493,468	6,258,023	74.67	13.83
2002	1,117,171	861,300	75,000	509,538	6,311,838	77.27	14.40
2003	1,190,525	910,400	76,700	530,194	7,273,838	78.46	13.54
2004	1,255,191	945,800	78,400	555,309	9,561,839	79.47	11.27
2005	1,326,660	977,300	80,100	576,100	11,383,221	81.22	10.19
2006	1,403,726	1,011,200	81,900	609,357	12,743,317	82.45	9.72
2007	1,480,956	1,060,400	84,600	644,928	14,974,396	82.74	8.83
2008	1,518,675	1,113,900	87,200	662,462	22,487,438	81.49	6.24
2009	1,482,144	1,151,900	87,200	659,468	18,411,320	78.07	7.30
2010	1,558,365	1,543,200	108,000	669,179	20,021,920	67.16	6.97
2011	1,617,677	1,601,000	112,100	678,260	23,358,248	67.65	6.28
2012	1,655,384	1,598,300	112,200	694,101	22,262,150	68.84	6.71
2013	1,713,302	1,666,500	116,900	715,130	21,035,192	68.57	7.28

Sources: Office for National Statistics, Econstats, and OECD.

Notes

1 **A**: Gross Domestic Product, **B**: Fixed assets of the nonfinancial corporations, **C**: Fixed assets of the financial corporations, **D**: Wages and Salaries, **E**: Total financial assets.

2 Numbers in columns B to E are in million sterling pound.

3 The full set of raw data from UK national accounting and exact calculation algorithms can be provided on request.

TABLE B

Germany

Year	*A*	*B*	*C*	*D*	*E*	*GER* PR_{trad} (%)	*GER* PR_{corr} (%)
						$A/(B+C+D)$	$A/(B+C+D+E)$
1991	1,579,800	3,103,665	172,087	700,527	6,160,300	39.73	15.59
1992	1,695,320	3,349,712	188,282	760,177	6,608,300	39.44	15.54
1993	1,748,550	3,537,883	202,227	780,259	7,562,300	38.68	14.47
1994	1,830,290	3,669,223	212,495	793,520	7,917,900	39.15	14.53
1995	1,898,060	3,804,292	223,325	819,968	8,758,691	39.15	13.95
1996	1,924,710	3,882,066	228,635	828,463	9,567,419	38.97	13.27
1997	1,964,650	3,976,165	237,046	826,781	10,621,826	38.98	12.54
1998	2,015,250	4,070,006	242,311	843,981	11,707,152	39.08	11.95
1999	2,061,810	4,149,873	244,717	869,538	13,096,944	39.17	11.23
2000	2,113,500	4,295,862	252,522	900,368	13,722,868	38.79	11.02
2001	2,176,810	4,402,378	254,683	917,446	14,090,140	39.05	11.07
2002	2,206,280	4,467,875	254,255	924,122	13,453,578	39.08	11.55
2003	2,217,050	4,515,939	252,825	922,446	14,062,478	38.96	11.22
2004	2,267,580	4,615,768	258,156	927,043	14,621,538	39.09	11.10
2005	2,297,820	4,707,529	260,446	925,441	15,642,983	38.99	10.67
2006	2,390,200	4,842,585	261,372	938,592	16,135,730	39.56	10.78
2007	2,510,110	5,098,051	270,996	968,900	17,038,339	39.60	10.74
2008	2,558,020	5,310,377	278,071	1,007,446	17,043,692	38.78	10.82
2009	2,456,660	5,406,558	283,285	1,008,327	17,474,687	36.68	10.16
2010	2,576,220	5,505,854	290,107	1,037,105	18,105,657	37.70	10.33
2011	2,699,100	5,691,959	302,454	1,085,549	18,355,303	38.12	10.61
2012	2,749,900	5,864,665	313,199	1,129,454	19,466,387	37.63	10.27
2013	2,809,480	5,978,372	321,690	1,163,291	19,512,300	37.64	10.41

Sources: OECD, Statistisches Bundesamt, and Deutsche Bundesbank.

Notes

1 **A**: Gross Domestic Product, **B**: Fixed assets of the nonfinancial corporations, **C**: Fixed assets of the financial corporations, **D**: Wages and Salaries, **E**: Total financial assets.

2 Numbers in columns B to E are in million euros.

3 The full set of raw data from Germany national accounting and exact calculation algorithms can be provided on request.

TABLE C

United States

Year	*A*	*B + C*	*D*	*E*	*USA* PR_{trad} (%)	*USA* PR_{corr} (%)
					$A/(B+C+D)$	$A/(B+C+D+E)$
1991	6,174,043	17,252,200	3,236,900	38,889,171	30.13	10.40
1992	6,539,299	17,978,900	3,442,700	41,203,407	30.53	10.44
1993	6,878,718	18,883,300	3,581,000	44,847,277	30.62	10.22
1994	7,308,755	20,010,700	3,756,000	47,258,097	30.75	10.29
1995	7,664,060	20,980,100	3,938,500	53,443,944	30.76	9.78
1996	8,100,201	21,976,900	4,147,300	58,922,605	31.01	9.52
1997	8,608,515	23,119,400	4,425,100	66,797,632	31.25	9.12
1998	9,089,168	24,411,000	4,770,600	75,736,248	31.15	8.66
1999	9,660,624	25,974,300	5,087,000	86,691,818	31.10	8.20
2000	10,284,779	27,695,300	5,511,400	90,208,372	30.97	8.33
2001	10,621,824	29,244,400	5,688,600	91,752,508	30.41	8.38
2002	10,977,514	30,682,800	5,775,900	91,062,256	30.11	8.61
2003	11,510,670	32,367,400	5,981,900	102,280,964	30.02	8.19
2004	12,274,928	35,681,500	6,330,800	113,296,556	29.22	7.90
2005	13,093,726	39,294,700	6,658,700	124,106,711	28.49	7.70
2006	13,855,888	42,506,500	7,055,000	138,821,735	27.96	7.36
2007	14,477,635	44,400,800	7,436,600	150,785,754	27.93	7.15
2008	14,718,582	45,856,400	7,606,900	138,746,725	27.53	7.66
2009	14,418,739	44,944,900	7,328,900	144,395,239	27.58	7.33
2010	14,964,372	45,859,500	7,492,100	150,927,328	28.05	7.33
2011	15,517,926	47,313,600	7,775,100	164,930,700	28.17	7.05
2012	16,163,158	48,711,900	8,092,600	175,763,200	28.45	6.95
2013	16,768,053	50,949,100	8,318,600	192,053,600	28.29	6.67

Sources: Bureau of Economic Analysis, OECD, Federal Reserve Bank, and US Census Bureau.

Notes
1 **A**: Gross Domestic Product, **B**: Fixed assets of the nonfinancial corporations, **C**: Fixed assets of the financial corporations, **D**: Wages and Salaries, **E**: Total financial assets.
2 Numbers in columns B to E are in million dollars.
3 The full set of raw data from US national accounting and exact calculation algorithms can be provided on request.

Notes

1 We apply an intuitive illustration of the changes of the variables only, with arrows up and down and the different numbers of arrows symbolizing relative sizes of change. But we have added cardinal algebraic conditions required. Again, in Appendix 1, we have provided some general algebraic conditions for the PR to increase or decrease, depending on the relative values of Δs, Δv, and Δc, and s, v, and c.

2 Note that already Veblen ([1904] 2005, Chs. V, VI) identified the *neo-feudalism* of a financialized redistribution and its *rent-seeking*, which strips real-economic assets for the increasing interest service.

3 Note that tracing the theoretical, ideological, political, and economic roots of the neoliberal power system have also been a continuing issue of John Henry (see, e.g., Henry 2010).

4 Freeman (2013, 174) shows that the PR of financial corporations in the UK, traditionally calculated on their tangible industrial capital, rocketed from around 20 percent in 2000 to nearly 80 percent in 2008. This, however, shows that a traditional PR makes ever less sense, the larger the amounts of fictitious capital are.

5 Note that such realization is usually accompanied by private individual rent-seeking, such as draining out top salaries, bonuses, and dividends and transforming them into luxury consumption of "real" goods.

6 Note that the existence of considerable household debt to finance consumption is just another side of the coin of excess loan supply as an activity of excess fictitious capital, but not the shifting of the "hot potato" of debt from industrial business to households, as one of the reviewers put the question.

7 Note that Veblen's theory of crisis had established such causal relations already; see, e.g., Davanzati and Pacella (2014).

8 Veblen already argued that when it comes to crisis, value shrinkage, and value correction, a redistribution of ownership in favor of the "creditor class" takes place (Veblen [1904] 2005, Chs. V, VI, particularly 99ff., 152ff.), as credits need to be served, industrial capital being confiscated, etc.

9 The PR_{trad} then might have to be symbolized as $PR_{trad}=\{(s\uparrow\uparrow / v\downarrow)\uparrow\uparrow\uparrow / [(c_{trad}\uparrow / v\downarrow)\uparrow\uparrow + 1]\}\uparrow$.

10 Note that we used a slightly different formula in Elsner (2013), based on slightly different structures of national statistics for Germany, namely: Property Income/(Gross Output – Property Income) and Property Income/(Gross Output – Property Income + Financial Assets), resp. We have approached Freeman and the commonly available statistics with our formulas here. But the GDP in the numerator is admittedly a very rough approximation of surplus value, containing variable capital. The exclusive use of statistical annual flows is another rough approximation. Constant capital, both traditional and corrected, is basically a stock. So while the numerator is a flow, the denominator would basically be a stock, and the annual wages another proxy for the stock of variable capital. For capital, of course, a vintage model, with an average lifetime of a unit of capital in years, with annual prices, depreciation rates, and discount factors, would of course be the more exact approach. But it would require other heavy presuppositions. The balance of advantages and disadvantages seems to be not too bad for a simple statistical annual flow approach.

11 For Marx's analysis, see the famous Chapter 24 of *Das Kapital*, Vol. I, Marx [1890] 1970.

12 Note that this news only made it into the *Daily Telegraph* for one day (February 11, 2009), and thereafter was withdrawn, and embargoed and tabooed among the tops of the EU, banks, and media.

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11 Shaping the social determinants of value through economic ghostmanagement

An institutionalist approach to capital accumulation

Marc-André Gagnon

> Fraud is useful only to those who have a purpose to deceive and a means to disseminate fraud among the population. The function of fraud is to conceal or pervert truth. But Why?… A social injustice must be concealed, covered over, rationalized. The basic social injustice, and that to which all injustices can be linked, is exploitation.
>
> (Henry 1990, 17)

Introduction: ghostmanaging the social determinants of value

In 2014, TransCanada Corporation pushed for the construction of different pipeline projects, including Keystone XL in the United States and Energy East in Eastern Canada. In November 2014, five strategy documents detailing the communication campaign organized by the public relations firm Edelman to help TransCanada gain social support (and political approval) for Energy East were leaked (Edelman 2014). The documents call for a budget to recruit 35,000 "activists" supporting the project through "grassroots" advocacy by using social media, and especially by paying numerous bloggers and key opinion leaders to defend the interests of TransCanada Corp. The documents explain how to transform public opinion and the economic preferences of the population by creating the illusion that a mass-movement in favor of the pipeline existed. One of the five leaked documents even elucidates that it is necessary to take some lessons from the Keystone XL, where the industry mobilized a million activists and generated more than 500,000 pro-Keystone comments during the public comment period. As the leaked documents explain:

> It's not just associations or advocacy groups building these programs in support of the industry. Companies like ExxonMobil, Chevron, Shell and Halliburton (and many more) have all made key investments in

> building permanent advocacy assets and programs to support their lobbying, outreach and policy efforts.
>
> (Goldenberg 2014)

The documents also indicate the need to pressure opponents of Energy East: "Add layers of difficulty for our opponents, distracting them from their mission and causing them to redirect their resources" (Goldenberg 2014). The idea was to create spurious issues forcing opponents to divert their resources to irrelevant matters. Documents also indicate the need to build partnerships with universities in order to produce scientific claims about the low environmental risks of the projects.

The leaked documents are of great interest because they show how important it is for companies to invest not only in their public image, but also in their capacity to shape the social debates surrounding their industry by investing vast amounts of resources to influence public opinion, media, and science in favor of specific corporate interests. The production of influence over social structures seems to be a central component for the projects' commercial success.

Building on a concept developed by Sismondo (2007), this chapter explores what we could call the "ghostmanagement" of the economy. One can argue that beyond the political economy of production and distribution, we find the political economy of influence in which dominant interests invest a significant amount of resources to influence and reshape social structures according to their interests. In more theoretical terms, two important questions are: What is being capitalized? How can we understand the nature of capital accumulation when investments are aimed at transforming social structures?

Note that it does not matter whether an investment project is good or bad. If the project is "good" for the community as a whole, the company still needs to invest massive resources to convince the skeptic population that this is the case. If the project is "bad" because risks are being externalized to the community, a "good" communication campaign might be able to make the project socially acceptable in spite of the externalized risks.

The profit capacity of the company here depends not only on the production of value (that is, the production of social wealth for the community), but also on its capacity to influence and shape habits of thought in the community in order to favor its own interests. In other words, a dominant firm needs to not only produce value, but also the social determinants of that value. In many industrial sectors, a firm without the capacity to shape social structures and habits of thought in favor of their interests is unlikely to enter into or remain among the dominant companies of corporate capitalism. In order to be brief, we can simply define dominant companies as the world's largest 500 companies in terms of market value (as they appear in the FT 500).

What would happen if dominant corporations like TransCanada Corp. were not able to shape the social determinants of value? Their market value would simply collapse. It is thus fair to consider that what dominant corporations capitalize is partly their power to directly or indirectly shape the societal habits of thought.

Interestingly, the analysis of how corporations capitalize their social power over the community is absent from the mainstream economic analysis. According to contemporary mainstream microeconomics textbooks, the capital of companies is assumed to be the means of production, which produce social wealth, and the profit of capital is assumed to be the result of the social wealth produced by these companies. This is Adam Smith's invisible hand: to maximize one's own interest (profits), one is led by the invisible hand of the market to serve the community (produce social wealth) in the best possible way. From there, we find another economic assumption: maximizing profits necessarily maximizes the social wealth of a community. Mainstream economic theory acknowledges that monopolistic capacities can exist, but it is considered as an exception to the rule and the revenues obtained this way are called "rent" or "quasi-rent" instead of "profits."

John Henry (1990) reminds us that it is no surprise that mainstream-neoclassical economic theory serves as an apology for the profits of dominant interests. John Henry has endeavored to explain why a specific theory or set of knowledge becomes dominant in a specific time, as well as what the social role of such constituted knowledge is. This chapter intends to build on Henry's insight by analyzing how the capacity of big corporations to shape habits of thought through different strategies is a central feature of contemporary capitalist accumulation.

Thorstein Veblen ([1904] 1996, 1908a, 1908b, [1919] 2002, [1921] 1965, [1923] 1997) was the first economist to earnestly tackle this issue by analyzing what he called the "intangible assets" of large businesses (their capacity to get something for nothing). For Veblen, corporations capitalize first and foremost their "sabotage" capacity over the industrial system (market power based on the capacity to restrain production), as well as any social structures or habits of thought allowing them to get differential gains.

The first section of the chapter analyzes in more theoretical terms how and why the concept of capital in mainstream economic theory is too restrictive. Building on the works of Thorstein Veblen, it is explained how capital accumulation under corporate capitalism is determined less by what Karl Marx would call the production of value but, instead, by the capacity of corporations to influence and shape the social determinants of value. The capacity for large corporations to shape social knowledge and desires, and to develop their influence on social practices and political decisions become central in the dynamics of capital accumulation. The second section of this chapter empirically analyzes the different types of corporate strategies for ghostmanaging the social determinants of value.

This section also provides a quick overview on different ways corporations influence and shape habits of thought through different forms of capture, from scientific capture to regulatory capture. The final section emphasizes that a tangible understanding of corporate capitalism must systematically include an analysis of corporations' intangible assets.

Re-thinking capital in corporate capitalism

Over the last 250 years, the concept of capital in economics has been the core of many debates and controversies (see Bliss *et al.* 2005). However, there is still no consensus on how to best understand this basic concept to analyze the working of a capitalist economy.

In the neoclassical tradition in economics, the concept of capital has been considered as material means to produce social wealth. This conception is entrenched in the works on the nature and measure of capital by Eugen Böhm-Bawerk ([1884–1909] 1959) and John Bates Clark ([1899] 1965) as well as their followers. It is also entrenched in the work of Karl Marx (1887) who analyzes capital as a social relation of power of one class over the other. When it comes to economic analysis, however, Marx also defines capital as means of production measured by their productive power.[1] For Marx, capitalism needs to be understood both as a dynamic and evolving system of production of goods that have socially determined value, and as a system constantly producing and reshaping the social determinants of the value of the goods. According to Marx, the social determinants of value are given by their historical context. The example of TransCanada Corp. shows that these social determinants are not independent variables. Large corporations are capable of achieving capital accumulation by directly reshaping these social determinants. For both Marxist and neoclassical traditions, capital accumulation remains based on the production of social wealth in a given context in which the social determinants of value are given.

The contribution of Thorstein Veblen

Thorstein Veblen is the first scholar to analyze the co-production of value and its social determinants by distinguishing the earning capacity of the business enterprise and the social productivity of the industry (Veblen [1904] 1996, 1908a, 1908b). For Veblen, capital is a pecuniary concept that relates to the predatory world of the business enterprise. The latter maximizes its earning capacity not by increasing its productivity, but by maximizing its control over the community, mostly through strategies of sabotage and by reshaping habits of thought and social structures (Gagnon 2007).

Analyzing the early twentieth-century American economy, Veblen contends that knowledge and technology have always been the main productive economic assets of a community (Veblen 1908a). Veblen ([1923] 1997) also analyzes the ways and means of industrial control by business interests during the era he called the "new order."[2] He considers that control over industrial knowledge and the material means to put this knowledge to use constitutes the core of capital's earning-capacity as a form of control over the community. From a Veblenian point of view, capitalism's contemporary transformations should not be viewed in terms of new forms of productivity but, instead, in terms of the new ways and means for business interests to extend their control over the knowledge and technology of a community.

Business interests and absentee owners do not participate in production, but develop control over the knowledge structure and thereby gain an upper hand on political power and on the population's habits of thought. Business enterprises' motives are not to maximize production, but to maximize pecuniary gains through pecuniary transactions of buying and selling. In fact, their pecuniary interests are better served by restraining production and by artificially creating scarcity. Business is thus a predatory practice of industrial sabotage, and the business trade must be considered not as a positive or zero-sum game but as a negative-sum game: "[this state of affairs] has some analogy with the phenomena of blackmail, ransom and any similar enterprise that aims to get something for nothing" (Veblen [1919] 2002, 54–55). The business enterprise interferes in strategic interstices of the concatenated industrial system and, depending upon its sabotage capacity, it can reclaim a more or less important ransom, which could be understood in contemporary economic theory as a monopolistic rent. For Veblen, there is no distinction between rent and profit, since the interest on capital is essentially rent (McCormick 1989, 613). Perturbation of the industrial system is thus a business norm, not an exception (Veblen [1904] 1996, 31–32). Sarcastically, Veblen identified earning-capacity through the threat of sabotage as the "natural" right of investors:

> [A]ny person who has the legal right to withhold any part of the necessary industrial apparatus or materials from current use will be in a position to impose terms and exact obedience, on pain of rendering the community's joint stock of technology inoperative for that extent. Ownership of industrial equipment and natural resources confers such a right legally to enforce unemployment, and so to make the community's workmanship useless to that extent. This is the Natural Right of Investment.... Plainly, ownership would be nothing better than an idle gesture without this legal right of sabotage. Without the power of discretionary idleness, without the right to keep the work out of the hands of the workmen and the product out of the market, investment and business enterprise would cease.
>
> ([1923] 1997, 65–67)

It is the property rights of the business enterprise over some of the community's strategic industrial assets that determine its earning-capacity, which is not determined by the intrinsic productivity of the assets amassed, but on their strategic importance in relation to the entire industrial system. The owner who controls industrial equipment does not participate in production; instead, the owner specializes in business-related concerns and is disconnected from industrial production and becomes an absentee owner.

This sabotage capacity through the control of the tangible assets of the community is not the only source of returns according to Veblen. Large business enterprises, which he defines also as going-concerns, extend their control over the community also by developing intangible assets, which are not new forms of productivity, but, instead, monopolistic capacities in the sphere of distribution.

Capitalizing intangible assets

The control over differential gains in distribution (goodwill, advertising, control over the distribution networks, social conventions) is the main intangible asset for business enterprises (Veblen 1908b, 112–124). The typical intangible asset is what Veblen calls "goodwill." He includes under the term, not only its traditional meaning of clientele, but also any monopolistic capacity that can increase the earnings of a business by controlling or restraining the supply of goods and services. However, any monopolistic capacity that can be legally owned (such as patents, franchises, or copyrights) is excluded from his definition of goodwill.[3] The emergence of corporations, trusts, pools and holding companies in the American economy could therefore be explained by the ability to create goodwill. In fact, goodwill and intangible assets constitute "the substantial core of corporate capital under the new order" (Veblen [1919] 2002, 74). Profitability is then determined by unproductiveness and the sabotage strategies of the business enterprise. Veblen points out many business practices that allow businesses to increase earning-capacity without participating in industrial production. He shows, for example, how firms can sell their products at higher prices by organizing demand through the manipulation of mass desires (Veblen [1904] 1996, 55). All the strategic practices related to, for example, brands, reputation, control over distribution networks, protectionist regulations, government concessions, labor exploitation, habits of thought, and access to credit, in short all strategic possibilities that can provide differential gains, become an asset for the business enterprise without participating in production.

All corporations, therefore, capitalize both tangible assets (since a business must offer a product) and intangible assets. In the actual business practices, Veblen observes, intangible assets are a necessity for all corporations ([1904] 1996, 142–143):

> When a corporation begins its life history without such a body of immaterial differential advantages, the endeavors of its management are early directed to working up a basis of good-will in the way of trade-marks, clientèle, and trade connections which will place it in something of a monopoly position, locally or generally. Should the management not succeed in these endeavors to gain an assured footing on some such "immaterial" ground, its chance of success among rival corporations are precarious.... The substantial foundation of the industrial corporation is its immaterial assets.

Corporate capitalism can thus be characterized by its steady capacity to avoid market competition thanks to the differential advantages and goodwill enjoyed by large business enterprises.

In literature, Veblen's capital theory is usually presented as the capitalization of private capacities for industrial sabotage (Commons 1934; Sweezy 1958; McCormick 1989; Nitzan 1998; Bichler and Nitzan 2009). While it is true that Veblen emphasizes the predatory nature of "business" (as opposed to "industry") in his later works, his overall theory of the evolution of the social structure is about the institutional process of cultural growth in terms of cumulative causation (Veblen 1898, [1899] 1934). In this way, intangible assets are not only direct and indirect predatory means to restrain production, but are also any institutional settings or social structures that provide earning-capacities to business concerns. They can be "habits of life settled by usage, convention, arrogation, legislative action or what not" (1908b, 116), "preferential use of certain facts of human nature—habits, propensities, beliefs, aspirations and necessities" (123). Veblen goes further: "Whatever ownership touches, and whatever affords ground for pecuniary discretion, may be turned to account for pecuniary gain and may therefore be comprised in the aggregate of pecuniary capital" ([1901] 1990, 311). Capital is not only an instrument for sabotage, it is also any dimension of human life that can be translated into higher earnings for businesses.

Capital beyond the economic sphere

For Veblen, the capitalization of both tangible and intangible assets rests upon an immaterial factor, which is the extent of control over the community that the asset secures, be it in the sphere of production or distribution. If this intangible control is direct, for example through the massive spending on advertising to manipulate the desires and habits of the people, this control is first and foremost structural, and rests on established social structures and habits of thought. The example of Microsoft illustrates this point: Microsoft's stock market value of $400 billion depends not only on its productivity but also largely on its capacity to restrain others' production. This capacity is not based on direct power to compel the population to act a certain way; instead, it is based on the fact that the community accepts the legitimacy of intellectual property, without which Microsoft's market value would collapse.

While Veblen proposes a very simple definition of capital—that is, "'Capital' means 'capitalized putative earning-capacity,' expressed in terms of value" ([1904] 1996, 131, original emphasis), this definition opens a door for an economic analysis in terms of control and power. In fact, for Veblen, capitalization is the subjective measure by the business community of the pecuniary control of a business enterprise over the community:

> Such a consolidation of ownership and control on a large scale appears to be, in effect, a combination of forces against the rest of the community.... The new state of things brought about by such a consolidation is capitalized as a permanent source of free income. And if it proves to be a sound business proposition the new capitalization will measure the increase of income that goes to its promoter or to the corporation in whose name the move has been made.
>
> ([1919] 2002, 78–79)

For example, as a form of control over the community, the state and nationalism are important sources of intangible assets for corporations since, in the name of the national interest, the state implements policies serving the national business interests (Sweezy 1958, 188–192). In his later work, Veblen's judgment about the role of the state leaves no ambiguity: "The constitutive authorities of this democratic commonwealth come, in effect, to constitute a Soviet of Businessmen's delegates, whose dutiful privileges it is to safeguard and enlarge the special advantages of the country's absentee owners" ([1923] 1997, 36–37). In this way, stronger states will allow for higher earning-capacity for national firms (Veblen [1919] 2002, 92) since they are able to mobilize greater political and military power to serve the firms' interests. In that sense, Veblen is a neo-mercantilist thinker; he refuses any conception of a "market economy" based on free competition. Instead, the organization of the economy has to be understood as the design of dominant interests shaping the social structures according to their own interests. Thus, not only are productive assets capitalized, but any institutional reality is capitalized as well, be it social, legal, political, cultural, psychological, religious, technical, or anything else that can grant an earning capacity, any capacity for vested interests to gain something for nothing. In other words, a successful communication campaign that would increase the profits of TransCanada Corp. to the detriment of the community is capitalized by the company as much as its control over strategic means of production. In contrast, the restrictive concept of capital in terms of "means of production" found in mainstream economic theory appears completely unfit to allow for an understanding of corporate capitalism.

The assumption that profits are the counterpart to a service rendered to the community clearly becomes a fraud in the sense used by John Henry (1990). As Veblen puts it: “It is always sound business to take any obtainable net gain, at any cost and at any risk to the rest of the community” ([1923] 1997, 191).

From the Veblenian-institutionalist perspective, it is impossible to confine the concept of capital to the economic sphere as capital is at the core of every social sphere, or, one should rather say, it mobilizes every social sphere so as to achieve differential gains. Capital infiltrates the social structures in every interstice to obtain differential earning-capacities. By defining capital as capitalized putative earning capacity without reference to productivity, Veblen integrates power—any institutional form of power—into the economy. From this perspective, political economy would provide a greater insight into the real dynamics of capitalism if it focused on the dynamics of corporate power and control over the social structures and the community in general, and on the means corporations utilized to manage the development of their influence over the community.

Ghostmanaging the social determinants of value

While the works by Thorstein Veblen are full of rich insights into the understanding of the nature and evolution of corporate capitalism, his works remain a bit dated to use as a coherent analytical framework. It is now necessary to refine the analysis of how corporations build intangible assets and maximize market value by transforming social structures according to their interests. This section explores that the corporate strategies used to influence social structures in order to maximize market value can be broken down into different categories.

This section categorizes corporate strategies creating intangible assets by building in part on the work of Miller and Harkins (2010), which identifies four different types of corporate capture in the food and alcohol industry: science capture, media capture, civil society capture, and policy capture. My own empirical works have focused on the pharmaceutical sector and I have expanded on the categories developed by Miller and Harkins into seven categories in order to have a more comprehensive framework to analyze the political economy of influence in any industrial sector:

1 Scientific capture
2 Professional capture
3 Technological capture
4 Regulatory capture
5 Market capture
6 Media capture
7 Civil society capture

Note that, after taking into account the remarks by Carpenter and Moss (2014), the use of the word "capture" should not be understood in terms of the complete capture of these elements. The word "capture" is used to describe the attempts to influence these elements by different corporate strategies. The categories suggested aim to better understand the political economy of influence that is constitutive of the contemporary dynamics of capital accumulation.

Scientific capture

Attempts to capture science by corporate interests are increasingly documented (Krimsky 2004; Mooney 2006; McGarrity and Wagner 2008; Matheson 2008; Michaels 2008; Wiist 2010; Mirowski 2011; Gotzsche 2013). The social authority of scientific discourses makes science an excellent target to shape the social determinants of value.

The pharmaceutical sector effectively demonstrates the need to capture science in different ways. A new drug can gain financial success only if it is possible to convince prescribers about the products' benefits and about the low risks associated with the product. Ghostwriting has become a common strategy for scientific capture in the medical literature (US Senate Committee on Finance 2010b; Lacasse and Leo 2010). The extent of ghostwriting at play goes beyond the basic issue of plagiarism. The notion of "ghostmanagement" was developed to show the extent of the use of ghostwriting and refers to a whole system of management behind closed doors used to influence scientific results in favor of corporate interests (Sismondo 2007; Sismondo and Doucet 2010; Gagnon 2012). Gagnon (2012) explains that corporate influence over medical science is normally based on three different strategies: (1) inflating the number of favorable scientific publications, (2) suppressing the scientific results that could harm sales, and (3) neutralizing independent academics and whistle-blowers.

Many studies found in medical journals are written by ghostwriters or medical writing agencies paid for by drug companies. These publications form part of carefully thought out publication plans that are essential to the success of promotional campaigns and the market launch of a new drug (Sismondo 2009). For example, internal documents from Pfizer revealed that, between 1998 and 2000, the company directly initiated the writing of at least eighty-five scientific articles on the antidepressant drug *sertraline* (Zoloft). During this period, the entire scientific literature on this active substance consisted of only 211 articles (Sismondo 2007). In this way, Pfizer produced a raft of articles showing the drug in a positive light and, at the same time, lessening the impact of critical studies. In the same way, Wyeth (now owned by Pfizer) generated about fifty articles in favor of hormone replacement therapy (Fugh-Berman 2010). Merck developed a ghostwriting campaign to promote its now-infamous drug *rofecoxib* (Vioxx):

96 articles were published, some of which failed to mention patient deaths in the drug's clinical trials (Ross *et al.* 2008). GlaxoSmithKline ran a secret campaign to skew the literature in favour of its antidepressant drug *paroxetine* (Paxil). The campaign was called "Case Study Publication for Peer-Review," or CASPPER for short, in reference to the well-known "friendly ghost" (Edwards 2009).

The second strategy is to restrain the disclosure of unfavorable results. Pharmaceutical companies consider that private-sector clinical research produces private confidential results as part of their intellectual property. They assume the right not to publish certain results, in the name of trade secrecy. And they are not compelled by political and health authorities to make the data obtained in clinical trials public. Drug companies can therefore select what data they want to see published (Goldacre 2013).

For example, major pharmaceutical companies have systematically failed to publish unfavorable studies on the "new generation" of antidepressants, known as selective serotonin reuptake inhibitors (SSRIs). Of the seventy-four clinical trials that were conducted on these antidepressants, thirty-eight produced positive results, while the other thirty-six showed the drug to have questionable or no efficacy. However, while 94 percent of the positive studies were published, only 8 percent of the unfavorable studies were published with negative results, and 15 percent of the negative studies were published in terms that suggested that the results were positive (Turner *et al.* 2008). Doctors reading the scientific literature have a biased view of the "benefits" of SSRIs, which explains why they so readily and systematically prescribe these antidepressants to their patients. Data shows that for 70 percent of the patients taking SSRI antidepressants, the drug is no more effective than a placebo (Fournier *et al.* 2010), but unlike a placebo SSRIs are associated with serious adverse effects (e.g., an increased risk of suicide). It is fair to argue that the selective production of ignorance has become constitutive of how pharmaceutical companies conduct scientific practices today.

A third strategy, which is more widespread than one might think, is to intimidate and neutralize independent researchers who produce studies that show the product in an unfavorable light. For example, Merck's internal e-mails, which came out during lawsuits over the harm caused by its drug *rofecoxib* (Vioxx), revealed that the company had drawn up a hit list of "rogue" researchers who had criticized Vioxx. One e-mail recommended that the researchers on the hit list had to be "discredited" and "neutralized." "Seek them out and destroy them where they lived" read one of the e-mails. This intimidation was the result of the work of an entire team that systematically monitored everything that was said about the product (Rout 2009). Similarly, in the case of the antidiabetic drug *rosiglitazone* (Avandia), which was withdrawn from the market in 2010 for safety reasons, a report by the US Senate explained that the main strategy of GlaxoSmithKline executives when confronted with the publication of negative clinical results was to downplay the importance of these results and to intimidate independent researchers (US Senate Committee on Finance 2010a).

It is important to understand that in a sector like pharmaceuticals, these strategies are no exception: a company that would refrain from these strategies in the name of ethics would simply lose their market shares (Gagnon 2013). If profits are affected by the scientific literature about the risks of the product (be it for pharmaceuticals, tobacco, GMOs, pipelines, etc.), it is more than likely that dominant corporations in the sector will deploy strategies to capture science in order to build their intangible assets.

Professional capture

Beyond scientific capture, it is important to understand that many companies deploy additional strategies to capture technical experts in a specific sector, like engineers or healthcare professionals. It is also important to differentiate professional capture from scientific capture since it sometimes has very little to do with science, and more to do with promotional campaigns.

In the United States, while the pharmaceutical industry spent $24 billion on research and development in 2004, it spent $58 billion on promotional campaigns (Gagnon and Lexchin 2008), of which $54 billion were spent targeting healthcare professionals including $43 billion spent specifically targeting physicians. It represents average promotional spending of $61,000 per physician annually to influence their prescribing habits. In addition to standard promotion, the recent implementation of the Physician Payment Sunshine Act in the United States requiring the disclosure of financial relationships between drug and medical device companies with physicians, showed that drug manufacturers directly paid $3.5 billion to 550,000 physicians over a period of five months in 2013 (or $8.4 billion a year), which represents a yearly average of more than $15,000 per physician (Chen *et al.* 2014).

The investment in professional capture in the pharmaceutical sector is financially greater than anything that is being invested in research and development. In other words, the main activity of drug companies is not to produce drugs, it is to produce and control narratives shaping medical knowledge in a way that favor their interests. The production of the social determinants of value (medical knowledge and social desire for drugs) is much more important than producing value (the drugs).

"Key opinion leaders" and promotional campaigns geared toward professionals have the capacity to shape expert opinion and influence professionals on controversial issues. Professional capture thus seems central to developing intangible assets in specific industrial sectors.

Technological capture

The notion of technological capture is important when considering that the dominant corporations in many sectors are the driving engines of technological change in the context of important technological path-dependency. Core companies often compete for establishing the technological standards in their sector or for developing patent portfolios to increase their bargaining capacity against competitors. In his two books, *Inventing the Electronic Century* (2001, 1–12) and *Shaping the Industrial Century* (2005, 3–18), Alfred D. Chandler provides a conceptual approach that allows us to interpret the dynamics for the technological capture of a sector. Chandler's basic idea is that the competitive strength of industrial firms in market economies rests on "learned organizational capabilities":

> In modern industrial economies, the large enterprise performs its critical role in the evolution of industries not merely as a unit carrying out transactions on the basis of flows of information, but, more important, as a creator and repository of product-related embedded organizational knowledge.
>
> (Chandler 2005, 6)

In a new industrial sector, for example, the "first movers" are the first enterprises to develop an integrated set of capabilities essential to commercialize the new products in enough volume for national or world markets. They benefit from their integrated capabilities, which become their "learning bases" to develop their control of the networks of production and distribution, to improve existing products and processes, or to adapt to new conditions, such as those of war or depression. This way, the "first movers," and those who in some way managed to catch up for their late arrival in the industry, become "core companies," or dominant firms, that set the technological direction in which the whole industry evolves:

> The concentrated power of technical, often proprietary, and functional knowledge embedded in the first movers' integrated learning bases is such that a relatively small number of enterprises define the evolving paths of learning in which the products of new technical knowledge are commercialized for widespread public consumption. The barriers to entry thus prevent startups from creating effective integrated learning bases essential to compete in the industry.
>
> (Chandler 2005, 9)

These dynamics are evident in the pharmaceutical sector in which most start-up companies cannot even consider competing with core companies and live only in the hope of being acquired by a core company (*The Economist* 2014b).

Furthermore, because patents make technical knowledge proprietary, developing technical capacity often takes the form of "kicking away the ladder" for smaller companies who would like to enter a market. In fact, the race for patents has become a race for strategic patenting, a strategy consisting of patenting as many elements as possible in their broadest scope in order to provide patent holders greater potential rights over future innovations. Such patent portfolios allow the construction of "patent thickets," or "patent gridlocks" (Heller 2008a), which are barriers to entry based on the threat of patent litigations against any new competitors. As such, patents are used in business sectors as a barrier to entry and restraint on competition rather than an incentive to innovate.

According to a German report by the Ministry of Economics and Technology concerning the relationship between patents and innovation, actual trends in the multiplication of low quality patents are harmful to innovation (see Lallement 2007, 4). Instead of providing an incentive to innovate, the multiplication of patents has been such that potential innovators are hesitant to finance research. For example, in the case of pharmaceuticals, while patents can increase revenues for specific companies, they can also stifle innovation as a whole. Peter Ringrose, former chief science officer at Bristol-Myers Squibb, claimed that his company would not investigate some fifty potential cancer-causing proteins, because patent holders would either decline to cooperate or demand large royalties (see Heller 2008b). Two Nobel laureates, Joseph Stiglitz and John Sulston, remark that, because of the intellectual property regime, medical research is "hindered by out-of-date laws," and that obstructive patents on genes and medical techniques can in fact "impede innovation, lead to monopolization, and unduly restrict access to the benefits of knowledge" (quoted in Jenkins and Henderson 2008).

An important share of the cost of innovation now involves the assembly of dispersed bits of intellectual property and the acquisition of necessary licenses. Nicholas Naclerio, former head of the BioChip Division at Motorola, notes that the surge in biotech patenting did not bring about therapeutic innovation but "a bewildering web of lawsuits—and it may only get worse." He continues, "[i]f we want to make a medical diagnostic with forty genes on it, and twenty companies hold patents on those genes, we may have a big problem. It isn't at all clear how this is going to work out" (quoted in Gibbs 2001). Heller and Eisenberg (1998, 698) define such underuse of resource, when multiple owners each have a right to exclude others from that scarce resource, the "Tragedy of the Anticommons." For Heller (2008a), such examples show that if everyone invests in the litigation process, innovation is tossed aside, gridlock sets in, and many lose out, except the dominant patent holders restraining innovation.

The importance of technological capture can also be seen in the patent war in the telecommunications sector. For example, when Google acquired Motorola Mobility in 2011, its primary goal was to acquire the portfolio of 17,000 patents by the company (and an additional 7,500 pending patents). The purpose of the acquisition was not to allow greater innovation, it was in fact the only way for Google to develop some bargaining capacity against the huge patent portfolios owned by Microsoft, Apple, or Oracle. Google sold the Motorola Division some months later while keeping the patent portfolio (Levy *et al.* 2014).

Technological capture by means of the establishment of technological standards or the appropriation of technical knowledge through patent portfolios can be a central intangible asset in many industrial sectors.

Regulatory capture

Carpenter and Moss (2014) define regulatory capture as follows:

> *Regulatory capture* is the result or process by which regulation, in law or application, is consistently or repeatedly directed away from the public interest and toward the interests of the regulated industry, by the intent or action of the industry itself.
>
> (13, original emphasis)

In the political economy of influence, influencing laws and regulations are key objectives for many companies. An obvious way in which corporations invest in influencing policymakers is through lobbying on their own account or via heavyweight trade associations. According to a study conducted by the Center for Responsive Politics based on data from the Senate Office of Public Records, the number of lobbyists at the federal level in the US (Congress and federal agencies) was 12,359 in 2013 and total declared spending on lobbying was $3.24 billion. The pharmaceutical sector ranked as the top lobbying industry with declared spending of $228 million, followed by the insurance sector ($153 million), and oil and gas ($145 million).

Since the Citizens United decision by the US Supreme Court in 2010, corporations are allowed to spend as much as they want to convince people to vote for or against a political candidate. According to the 5–4 Supreme Court decision, if the funds are not being spent in coordination with a political campaign, they "do not give rise to corruption or the appearance of corruption." Following the decision, independent expenditure-only committees (Super PACs) were created to raise unlimited sums of money to overtly advocate for or against political candidates. In 2012, Super PACs amassed $828 million. For many, such political funding can be compared to open forms of corruption (Lessig 2011).

In addition to direct lobbying, revolving doors (Public Citizen 2005) and ubiquitous conflicts of interests in government and academy should also be considered as important means of regulatory capture. For example, there is growing literature accounting for how private interests manage to shape public law, especially in the case of international trade agreements (Drahos and Braithwaite 2002; Sell 2003; Brunelle 2007; Gagnon and Lexchin 2013). While this chapter cannot review all the strategies and dimensions of regulatory capture, it seems evident that such strategies are a central feature in the accumulation of intangible assets for dominant corporations.

Market capture

The category of market capture, already analyzed by Thorstein Veblen, refers to any capacity for corporations to develop market power or restrain market competition. The building of monopolistic capacity through cartel agreements, mergers and acquisitions, cooperation agreements or through specific forms of corporate structures (trusts, holdings, conglomerates) are the main elements that could be included under this category.

Price-fixing cartels abounded in the 1930s, but declined after World War II. From 1955 to 1985, the US Department of Justice discovered only a few cases of international price-fixing agreements, including a case of price-fixing in antibiotics, and between 1985 and 1994 no cases were discovered. Since 1994, a cartel revival was observable since twenty international cartels were found. Two of those cartels were in pharmaceutical products: one in lysine (an essential amino acid), which managed to increase world prices by 70 percent on that substance, and another in vitamins (Connor 2008). In fact, it was the discovery of the cartel in lysine that brought antitrust authorities to open investigations in other sectors. The investigations of the lysine cartel revealed how easy it was to organize a price-fixing agreement, and created a public uproar by exposing the sharp disdain such firms had for their customers. For example, in a FBI tape of one session of the cartel, ADM's president and lysine cartel leader, James Randall, explains: "We have a saying in our company: Our competitors are our friends, our customers are the enemy" (Gagnon 2009).

Such "traditional" price-fixing agreements remain officially illegal according to competition policies in most industrialized countries: they are normally prosecuted by law, and should not be considered central within the structure of corporate capitalism. However, other strategies, like mergers and acquisitions, administered prices (Means 1972), cooperation agreements or other types of inter-firm cooperation (see Fear 2006) are central to market capture.

With more than $3.6 trillion in deals announced worldwide, 2014 is set to become a record year for the value of corporate mergers and acquisitions (*The Economist* 2014a). Mergers and acquisitions are a typical case of goodwill creation that does not increase production capacity. For example, in the case of pharmaceuticals, mergers and acquisitions are often used to slash spending in research and development. As *The Economist* (2014b) explains: "Some in Wall Street see pharma research as value-destroying and an obvious target for cuts." In a nutshell, the destruction of innovation capacity in the pharmaceutical sector is considered an excellent way to build the intangible assets for the shareholders.

Collaboration agreements between companies are becoming very important, especially in knowledge-based sectors. In the pharmaceutical sector, it was found that among the sixteen largest pharmaceutical companies worldwide at least eighty-two collaboration agreements existed in 2008, which means that each dominant firm had on average more than ten cooperation agreements with other dominant firms (Gagnon 2009). The result is that the sector is organized less like a competitive market and more like a network of cooperation. Market competition in the pharmaceutical sector becomes an elusive concept when compared to the reality of organized systematic cooperation. While there is no official cartel agreement, we find ourselves confronted with the multiplication of quasi-cartel agreements, which results in what Fred Lee (2012) would call "managed competition." The result is normally the same—i.e., increased monopolistic capacities as a form of intangible assets for dominant corporations.

Media capture

Media can play an important role in creating intangible assets, as is detailed in the leaked communication plan for TransCanada Corp. It can play a direct role in lobbying and policymaking as it provides a capacity to connect with public opinion and elite opinion, and it can help to target and destroy industry critics (Miller and Harkins 2010). Literature on media institutions and processes accounts for the different mechanisms by which media are influenced and captured by corporate interests. Such mechanisms include advertising, public relations, influence of media ownership, attacks on critics, etc. (McChesney 2008).

According to eMarketer, total media advertising expenditures in the United States amounted to more than $180 billion in 2014. In the pharmaceutical sector, latest available numbers by IMS Health show that the industry spent almost $4 billion in 2011 in "direct-to-consumer" advertising. Experts in corporate public relations (PR) are becoming more and more active in shaping the news concerning corporate interests. It is estimated that for every working journalist in the United States, there are now 4.6 PR people, up from 3.2 a decade ago (Edgecliff-Johnson 2014). A report from the United Kingdom estimated that 41 percent of press articles and 52 percent of broadcast news items contain PR materials that play an agenda-setting role or make up the bulk of the story (Lewis *et al.* 2008).

Miller and Dinan (2009) emphasize a neglected dimension of media capture by analyzing the use and role of media in securing regulatory capture through the sophisticated use of seemingly independent organizations as echo chambers for corporate messages or through direct attempts to take over the means of communication. Many think tanks presenting themselves as independent non-profit organizations act as lobbying organizations for their corporate funders. Miller and Harkins (2010) describe the example of the Social Issues Research Centre (SIRC), an "independent non-profit organization" producing "balanced" research on lifestyle issues such as drinking, diet, and pharmaceuticals. The "social scientists" staffing the SIRC also work for the market research company MCM research. The MCM website used to ask:

> Do your PR initiatives sometimes look too much like PR initiatives? MCM conducts social/psychological research on the positive aspects of your business. The results do not read like PR literature, or like market research data. Our reports are credible, interesting and entertaining in their own right. This is why they capture the imagination of the media and your customers.
>
> (Cited in Ferriman 1999)

The line between journalism and lobbying gets blurred, especially in the era of Internet and social media. Confessore (2003) calls "journo-lobbying" the massive lobbying disguised as journalism:

> Lobbying firms that once specialized in gaining person-to-person access to key decision-makers have branched out. The new game is to dominate the entire intellectual environment in which officials make policy decisions, which means funding everything from think tanks to issue ads to phony grassroots pressure groups. But the institution that most affects the intellectual atmosphere in Washington, the media, has also proven the hardest for K Street to influence—until now.

Civil society capture

Civil society refers here to charities, non-governmental organizations, trade unions, social movements, and other groups. The technique of creating front groups (sometimes called astro-turf organizations) has a long history in the era of corporate capitalism (Miller and Dinan 2008).

Some companies, like Pfizer, are known to be very proactive in developing means to capture civil society (Drahos and Braithwaite 2002). Pfizer has prioritized the funding and creation of think tanks all over the world. Former Reagan administration official, Catherine Windels, was in charge of Worldwide Policy Mobilization at Pfizer and is sometimes described as the "godmother of think tanks" (Powerbase 2014). During her twenty-two-year career at Pfizer, she helped create new think tanks and networks of think tanks in Europe, Canada, Africa, and Asia, and worked closely with many leading institutes in the United States. Among others, she is the former Secretary Treasurer of the very influential Fraser Institute in Canada.

However, the creation of front groups for lobbying purposes is only one technique to capture civil society. Many grassroots organizations in civil society can be captured or influenced by corporate groups, especially when they rely on corporate grants to fund their activities. In the pharmaceutical sector, patient groups can play a key role to get a drug approved and reimbursed by insurers at very high prices. Most patient groups, however, are not created by drug companies but they often rely on corporate donations to fund their activity. Not surprisingly, they often end up defending the interests of drug companies (get drugs approved and reimbursed at high prices) in spite of claims that their funding does not influence their discourse (Batt 2005). Note that it is likely that these groups did not change their discourse because of their funding. However, one must consider that drug companies will fund only groups who already embraced the "right" discourse in order to make sure that this "patient voice" has more impact than others in the regulatory debates.

The company GlaxoSmithKline (GSK) is the only drug company that details its financial grants to different charities and patient groups in the United States. According to its website (http://fortherecord.payments.us.gsk.com/hcppayments/archive.html), GSK distributed $21.1 million to US-based non-profit organizations in 2013. If the funding pattern of GSK is representative of other companies and considering that, according to IMS Health numbers, GSK represented only 4.3 percent of the total $325.8 billion prescription drug market, we can estimate that drug companies spent almost half a billion in grants to patient groups in the United States in 2013.

Conclusion

Building on Veblen, an institutionalist approach to capital accumulation must analyze the different types of social power capitalized by dominant corporations (Veblen 1908b; Bichler and Nitzan 2009). In order to better understand the different types of social power that allows dominant corporations to create intangible assets, this chapter has analyzed seven types of capture. While the categories are built from analyzing corporate power in the pharmaceutical sector, it is likely that the same categories apply also to other industrial sectors. The specific corporate strategies to capitalize social power certainly change from one sector to the other, but it can be argued that these seven broad categories are large enough to encompass all main corporate strategies to develop intangible assets.

The use of these categories to analyze intangible assets in the pharmaceutical sector allows us to understand how pervasive corporate power is becoming in the shaping of the social structures in which we live. The ghostmanagement of the economy is not a secondary matter that must be analyzed at the margin. Let's remember that in the case of the pharmaceutical sector, drug companies invested around $50 billion in research and development (R&D) in 2013 (*The Economist* 2014b). The analysis of science capture shows that an important part of this sum is invested in strategies to manage R&D as promotional campaigns. Furthermore, according to our analysis, the industry spends around $54 billion every year in promotional campaigns toward healthcare professionals, products, $8.4 billion in direct payment to physicians, $4 billion in direct-to-consumer advertising, $228 millions in lobbying policymakers, and $500 million in funding charities and patient groups. Additional resources are also being spent in different ways to capture the media, technology, or markets. Clearly, the pharmaceutical sector spends much more in producing the social determinants for the value of their products than producing products. The production of intangible assets can be understood as the main driving engine for capital accumulation in this sector.

Control of ideas, knowledge, habits of thought, and narratives has become central in how dominant corporations thrive in corporate capitalism, in pharmaceuticals or in other industrial sectors. Mapping this political economy of influence by identifying the mechanisms of how dominant interests are ghostmanaging the economy seems to be a necessary first step to better understand the dynamics of corporate power in our society. In this particular respect, John Henry notes that:

> If any idea is to be successful, it must have a social mechanism of dissemination. Any idea, no matter how potentially significant, cannot become operable unless it has an impact on that which it is about. And to have an impact, the idea must be transmitted throughout society, or at least throughout a significant part thereof. An idea that does not go beyond the brain of the ideologist is stillborn.
>
> (Henry 1990, 1)

He synthesizes here both the need to map corporate strategies of social control to understand their influence, and the need for citizens to develop their own strategies if they want to efficiently oppose and overthrow this ubiquitous corporate power in our society.

Notes

1 While we refer here to the dominant interpretation of Karl Marx's economic analysis, some authors contend that the production of the social determinants of value is central to his works. See for example Gagnon (2011) and Faccarello (2000).

2 By "New Order" Veblen ([1923] 1997) means the new business order that emerged in the era of robber barons, when industries were organized into corporations, cartels and trusts. This *New Order* is characterized by the collectivization of capital in business enterprises and absentee ownership of corporations.

3 In his *Theory of Business Enterprise*, Veblen ([1904] 1996) includes those elements under the definition of goodwill, but it seems here more consistent to distinguish those two kinds of intangible assets, as Veblen does in his later works. Note

that Veblen's definition of goodwill is consistent with modern accounting, according to which *goodwill* represents the discrepancy between market value and book value at the moment of a merger or acquisition, while copyrights, franchises and patents represent different sub-categories of intangible assets. About the consistency of Veblen's definition of goodwill in the history of accounting, see Hughes (1982).

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12 The rise of money and class society

The contributions of John F. Henry

Alla Semenova and L. Randall Wray

Introduction

The devastating trends in social and economic inequality in developed industrialized nations have been a subject of a growing body of literature, economic and non-economic alike (see Piketty 2014; Taibbi 2014; Stiglitz 2013; Reich [2011] 2013; Wilkinson and Pickett 2010). While the experience of the Great Recession and the ensuing discussion of grotesque inequality has made it obvious that the present trends in rising income and wealth disparities are unsustainable and must be contained and reversed, few scholars have examined the nature of socio-economic inequality itself. Was the rise of inequality part of a natural and, thus, inevitable progression of societies? Is inequality a natural and, hence, unavoidable trait of socio-economic organization?

For those who thought that inequality was natural and inescapable, John Henry (2004) presents a convincing account of the not-so-natural rise of socio-economic disparities and classes in Ancient Egypt. In fact, Henry's contribution clearly demonstrates that the rise of inequality in Ancient Egypt was more akin to an *accident* of history (though a gradually occurring one), rather than history's natural progression. Having emerged accidentally, inequality came to be cemented, perpetuated and widely accepted as a 'normal' and, thus, ever-present characteristic of societies.

The role of ideology in rationalizing and maintaining the status quo in unequal societies is an issue Henry tackles with no less equal passion than the rise of inequality itself (see Henry 1990). Henry examines the rise of such ideology in Western societies, including John Locke's elaborate theoretical justification of unequal distribution of wealth (see Bell *et al.* 2004). In his case study of Ancient Egypt, Henry (2004) shows how *religious* ideology played a crucial part in justifying the newly emerging hierarchical social structures.

The final and critical point Henry makes is that the rise of class society and inequality took place alongside the emergence of money, whereby money played a key role in establishing, maintaining, and exacerbating inequality and class division in societies (see Henry 2004). To put it simply, as soon as one witnesses the emergence of money, one observes the rise of class society and socio-economic inequalities. Money, class society, and inequality came into being simultaneously, so it seems, mutually reinforcing the development of one another.

We believe that Henry's account of the rise of money, social classes, and inequality in Ancient Egypt has important implications for today's discourse on growing income and wealth disparities in developed industrialized economies. First and foremost, there is nothing natural about the existence of socio-economic inequality. Second, the current trends in income and wealth disparities could and should be reversed. While we do not argue that perfect equality is possible or even desirable in developed industrialized societies (for reasons that are beyond the scope of this chapter), we do contend that the current state of income inequality could and should be remedied via the use of modern money for public purpose following the principles of Modern Money Theory (MMT) (see Wray 2012a, 2014a, 2014b, 2014c, 2014d).

The above propositions inevitably lead us to the discussion of money, its origins and nature, and the underlying link between money, authorities, and inequality. While it is true that money, inequality, and class society developed hand in hand, mutually reinforcing the emergence and consolidation of one another, the inequality-inducing characteristic of money could be greatly (though far from entirely) subverted and undermined, if money were to be used according to the principles of MMT. If used according to the principles of MMT, money could serve the greater public purpose of improving the living standards of the majority of the population of this planet. Thus, rather than doing away with the institution of money, MMT proposes to finally make this institution serve the greater public good.

In what follows, we will begin with a discussion of the nature of money, presenting two contending perspectives on the subject—Chartalism and Metallism—devoting more attention to the former. In doing so, we will summarize the contributions of a handful of major thinkers whose work was instrumental in the development of the Chartalist approach. We will then present two historical case studies of money's origins—in Ancient Greece and Ancient Egypt—demonstrating the reciprocal relationship between the rise of money, class society, and inequality. It will be shown that religious and other ideology played a crucial role in the rise of money, classes, and inequality in both regions examined. This chapter concludes with a brief discussion of the use of modern money for public purpose, such as the reversal of the current trends in income and wealth disparities, following the principles of MMT.

Chartalism and Metallism: an overview

Charles Goodhart (1998) was among the first scholars to introduce a distinction between the orthodox 'Metallist' and the heterodox 'Chartalist' approaches to the nature and origins of money. Following Geoffrey Ingham (1996, 2000, 2004a), John Henry (2004) made a closely related distinction between "those theories that see money as a technical development [Metallism], and those proposing that money is a social relationship [Chartalism]" (78).

In the Metallist approach, money comes into being when a *commodity* serves as a universal medium of exchange (such as gold or silver metal) in private sector markets. Money is a spontaneous private sector development aimed at overcoming the economic inefficiencies of barter. Although the primary focus of Metallism is the medium of exchange function of money, Metallist scholars do not exclude other money functions, nor do they advocate a return to a gold standard. However, the Metallist vision leads directly to specific policy prescriptions, including the view that money's value is linked to its scarcity (Wray 2014a; see also Bell 2001).[1]

Alongside the misconception that money is a *thing*, Metallism promotes the notion of "an underlying equality among the participants in the exchange relationship" (Henry 2004, 78). "As exchange must be voluntary in order for all parties to benefit, no coercive arrangements can exist that would negate freedom of choice" (78). Henry thus reminds us that the Metallist account of money's origins necessarily excludes social and economic inequalities and hierarchies, as money facilitates trade among equal, classless, and free participants in the voluntary exchange.

While Metallism views money's origins as a spontaneous private sector development, Chartalism highlights the important role played by the 'authorities' in the origins and evolution of money. In the Chartalist approach, the 'state' (or any other public authority able to impose an obligation) imposes a liability in the form of a generalized, social or legal unit of account—a money—used for measuring (or denominating) the obligation. Money is introduced by the state as a unit of account in which debts and other obligations to the state are denominated and have to be repaid. It is from this power to extinguish debts and other obligations to the state that money acquires its value. Money's intrinsic value is therefore irrelevant, for the state could theoretically choose and introduce any unit of account as money (Wray 1998, 2012c, 2014a).

The Chartalist context of money's origins therefore reveals unequal power relations and social hierarchies. If money "represents a relation between those who claim [the] obligations and those who must service those claims" (Henry 2004, 78), the existence of money necessarily presupposes a social divide between those who are able to impose obligations and debts and those who must service them. As Henry puts it, the Chartalist

> theories necessarily connote (or at least imply) some underlying inequality, as those who claim obligations must be in a superior position to those who are obligated to the former. Otherwise, there would

> be no social reason to fulfill said obligations or any mechanism to enforce payment.
>
> (78–79)

In what follows, we will discuss the Chartalist perspective in more detail by surveying the contributions of Knapp, Innes, Grierson, and Ingham—the scholars whose work was important in building a modern version of Chartalism, an approach now called Modern Money Theory (MMT).

The Chartalist tradition: the contributions of Knapp, Innes, Grierson, and Ingham

Knapp and the state theory of money

Georg Friedrich Knapp developed the *state theory of money* view which is directly opposed to the Metallist approach, according to which the value of money derives from the value of the metal standard adopted. More generally, Knapp is critical of the Metallists' attempts to "deduce" the monetary system "without the idea of a State." This he believes to be "absurd," for "the money of a state" is that which is "accepted at the public pay offices" (Knapp [1905] 1924, viii; see also Goodhart [1975] 1989, 1998; Wray 1998, 2014a). The political science aspect of Knapp's approach is the inseparability of the institutions of money and the state, for money is always "associated with the State which introduces it" (Knapp [1905] 1924, 40).

Chartalism, however, should not be misidentified with the proposition that legal tender laws determine that which must be accepted as means of payment. The ultimate test of moneyness is "that the money is accepted in payments made to the State's offices" (Knapp [1905] 1924, 95). The state first decides what it will use or accept as money in its own transactions, and this must then be accepted as means of settlement of private debts. As Abba Lerner (1947) noted, "a simple declaration that such and such is money will not do" (313). Rather, "the trick is done" when "the state is willing to accept the proposed money in payment of taxes and other obligations to itself" (313). Or, as Keynes famously said, the state "claimed the right not only to enforce the dictionary but also to write the dictionary" (Keynes 1930, 5). The material used to manufacture the monetary unit is wholly irrelevant—it can be gold, silver, or common metal; it can be paper and, today, it can be electronic entries on tape or hard-drive (Wray 2014a). Money is simply a 'ticket,' a 'token,' a Chartal[2] means of payment that the state issues and accepts in payment of taxes, fines, and fees.

Innes and the credit money approach

A. Mitchell Innes (1913, 1914, 1932) advanced the state theory of money view along with the credit money approach. A sale, according to Innes, is "the exchange of a commodity for a credit" (Innes 1913, 391). Rather than a medium of exchange, money is an acknowledgment of one's debt, or money is credit, if viewed from the perspective of the creditor. Innes notes that the verb 'to pay' has the root meaning 'to appease,' 'pacify,' or 'satisfy' (392), and maintains that the "really important" characteristic of money is "the right that it confers on the holder to liberate himself from debt by its means" (393). The "primitive law of commerce," according to Innes, is the "the creation of credits and debts, and their extinction by being cancelled against one another" (393). "The presence of a law of debt," "the sanctity of an obligation," argues Innes, is the foundation of all societies of which we have historical records (391).

Observing that some of the earliest commercial documents were found in Babylonian temples, Innes (1913) underscores the relationship between money, debt, public authorities, and religion, attributing "the origin of all fairs" to religious festivals the primary purpose of which was the settlement of debts (397).

> There is little doubt to my mind that the religious festival and the settlement of debts were the origin of all fairs and that the commerce which was there carried on was a later development. If this is true, the connection between religion and the payment of debts is an additional indication if any were needed, of the extreme antiquity of credit.
>
> (397)

Finally, Innes extends his analysis to incorporate the state. When the government spends, it becomes a debtor as it issues state money or acknowledgments of the state's indebtedness (Innes 1914, 154). However, unlike the private sector debt, the government's money is a special kind of credit, "redeemed by taxation" (168). Whether the state's IOU is printed on paper or on a gold coin is irrelevant, for the state is indebted just the same. Historically, the monetary records (of those debts) included clay tablets, hazelwood sticks, base metal coins, as well as paper certificates (Innes 1913).

Lastly, Innes' (1932) work on criminal justice and money shares important links to the work of Philip Grierson (1975, 1977). Grierson traced the origins of money to the ancient tradition of Wergeld.

Grierson and the role of Wergeld in the origins of money

A renowned numismatist, Philip Grierson (1975, 1977) famously proclaimed that "money lies behind coinage" (1977, 12), thereby rejecting the orthodox belief that the origins of money could be reduced to the emergence of coinage or the use of metal as a medium of exchange. For Grierson, coinage is merely a "specific" case within the general phenomenon of money, the history of which is "much more complex" compared to that of coinage which is "relatively simple" (1977, 12). The history of money, according to Grierson, is first and foremost a history of the emergence of an abstract unit of account. Accounting for the marginality of trade (both foreign and domestic) in archaic and ancient societies, Grierson (1975, 1977) rules out the belief that a unit of account developed within a market context. Turning to linguistic evidence, Grierson (1977) observes that the Greek word for 'price'—*timē*—meant 'compensation,' 'satisfaction,' and 'penalty' (27). Through a detailed investigation of historical records, Grierson (1975, 1977) further discovered a range of evidence for the emergence of measurement systems and units of account within the ancient tradition of Wergeld.

Derived from *wair* meaning 'man' and *gildan* meaning 'to pay' or 'to render' (Grierson 1977, 22), the term *Wergeld* refers to the ancient tradition of paying in-kind compensations for personal injuries to, or murders of, kin members. By compensating the family of an injured or murdered person, retaliation by force, blood feud, and other "inconvenient social consequences" could be avoided (19). Wergeld fines were assessed and levied by public assemblies, and each transgression was associated with a particular fine. Payments, on the other hand, were made "directly to the victims or their families [and] not to public institutions" (Hudson 2004, 99). A designated rememberer was responsible for passing the list of fines to the next generation. Initially, each fine was levied in terms of a specific good that was both useful to the victim's family and more-or-less easily obtainable by the transgressor (Wray 2014a).

While Wergeld required social consensus on the form of compensation to the victim, there was no need for a standardized unit of account, for each injury was associated with a specific fine paid by the transgressor (see Wray 1998, 2004). Gradually, however, specific Wergeld debts owed to victims and their families were transformed into general monetary debts owed to the authorities such as fees, fines, tithes, tribute, and taxes (see Grierson 1975, 1977; Wray 1998, 2004, 2014a; Wray and Bell 2004). Therefore, while the Wergeld tradition did not *directly* generate a standardized unit of account, Wergeld gave rise to the notion of debt and a unit of measurement. As Grierson puts it, the Wergeld tradition provided "the prerequisites for the establishment of a monetary system" (Grierson 1977, 20). Yet, it is only when Wergeld fines were transformed into standardized payments made to authorities that money emerged as a standardized unit of account. This transformation could not take place "in an egalitarian, democratic, tribal society, but had to await the rise of some sort of ruling class" (Wray 2004, 227).

Ingham and money as a "social relation"

By bringing in a historical perspective along with the sociology of money, Geoffrey Ingham has made important contributions toward the development of the Chartalist approach. Siding with Grierson, Ingham underscores that "coin is not the origin of money" (2004a, 97), for historical evidence points to the origins of money as a unit of account for the assessment of social and political obligations. Such debts could initially take the form of Wergeld payments, gradually evolving into tax and rent obligations due to the authorities. In Ingham's view, "a stable and uniform measure of value can only be produced by an authority outside the sphere of exchange—usually, but not necessarily a state" (Ingham 2013, 132). Obviously, the ability to establish a standardized unit of account is "inherently a source of power" (Ingham 2004b, 20).

The above discussion leads us to one of Ingham's most important contributions, specifically, the view of money as "a system of social relations based on power relations and social norms" (Ingham 2000, 19). Rather than a *thing*, money is "a social relation of credit and debt" (Ingham 2004a, 25; see also Ingham 1996), which is by its nature an unequal social relation. Henry (2004) elucidates this point well: "For every debtor there must be a creditor, and such a relationship is one of inequality with creditors having economic power over debtors" (84). Obviously, there could be no debt in egalitarian societies organized around the practice of hospitality (see Bell and Henry 2001).[3]

The rise of money and class society: the case of Ancient Greece

The standardization of the ox-unit of value and account

A pre-market, religious context of money's origins in Ancient Lydia and Greece was first explored by Bernhard Laum (1924).[4] Laum's primary focus is the origins of the ox-unit of value and account, the conventional unit of measurement in Ancient Lydian and Greek societies.

Because the institution of trade, both foreign and domestic, played a marginal role in Ancient Greek and Lydian societies, it would be unlikely that the ox-unit developed in a market context (Laum 1924; for the marginality of trade see also Kurke 1999; von Reden [1995] 2003; Seaford 2004; Semenova 2011a, 2011b; Peacock 2013). Rather than market exchange, Ancient Greek and Lydian economies exhibited "the centrality of reciprocity and redistribution as principles of allocation" (Seaford 2004, 27).

For the purposes of the present discussion, the most important redistributive activity was that of a highly ritualized communal sacrificial meal. Conducted in honor of a commonly worshiped divinity, the tradition consisted of a public killing, roasting, and eating of sacrificial animals. The objective of the ritual was to establish solidarity and social cohesion among the members of the community. Perhaps the most prominent feature of the communal sacrificial model was its egalitarian emphasis, manifest in "just" and "equal" distribution of roasted bull's meat among the ritual participants (Seaford 2004). In six lengthy descriptions of sacrifice, Homer stressed the egalitarian aspect of the ritual via a formulaic sentence: "they feasted, nor was anybody's hunger denied the equal feast" (40).[5]

While the ritual employed the principles of collective participation (*koinōnia*) and "equal distribution to all" (Seaford 2004, 41), one's equal share corresponded to one's social status: "to the order of social rank there corresponded an order of rank in the apportionment of the roasted flesh" (Desmonde 1962, 116). The just shares allocated to ritual participants differed not only in quantity, but in quality as well. The more honored parts of the sacrificial animal, such as the limbs, were customarily allotted to religious officials.

In this manner, the sacrificial repast reflected the principle of proportionate rather than absolute equality (see Semenova 2011a, 2011b). Proportionate equality "gives to the greater more and to the inferior less and in proportion to the nature of each" (Plato *Laws 757*, in Spengler 1980, 88–89). Yet, the principle of proportionate equality did not repudiate the egalitarian aspect of the communal feast: equality did prevail—in proportion to the social standing of the communicant (see Spengler 1980; Minar 1942). Purporting to allocate just and equal shares to the members of the not-so-equal community, the all-inclusive rituals of communal sacrificial meals aimed to create an appearance of harmonious and consensual social relations, thus concealing the underlying reality of social hierarchies and economic inequalities. As Henry (2004) would put it, "the façade of equality had to be maintained while inequality was growing and solidifying" (87).[6]

To service the ritual, sacrificial offerings were made, mostly in oxen, whereby religious officials stipulated the precise quality, type, and quantity of cattle to be contributed, thereby establishing the first standardized unit of account guaranteed by the authorities (Laum 1924; Desmonde 1962; Seaford 2004; Semenova 2011a, 2011b; Peacock 2013).

> Sacrificial cattle … were subject to *qualitative standardization*, according to type, age, sex, colour, being unblemished, not having been used as work animals.… One did not, that is, sacrifice just any animal to a deity but rather a carefully selected one which met certain standards.
>
> (Peacock 2013, 89, original emphasis)

To conclude, the redistributive economies of Ancient Greek and Lydian societies were shaped by religion and its normative character, not by the market. Sacrifices to deities represented the presence of a social *obligation*: mortals were not free to refuse sacrificial interactions with deities (Peacock 2011). This administratively imposed debt relationship between humans and deities gave rise to a standardized unit of account, a unit which did not disappear even after coinage emerged as a creature of a democratic city-state (see Semenova 2011a, 2011b).

Lastly, the redistributive model of communal sacrificial meals was later embraced by the emerging authority of the civic *polis* as the latter struggled to establish its authority against the powers of the old aristocratic elites. It was within the context of political confrontation between the old aristocracy and the emerging *polis* that Greek coinage came into being (see Kurke 1999; von Reden [1995] 2003; Seaford 2004; Semenova 2011b). In its nature, the earliest Greek coinage was quintessentially Chartal.

The origins of Chartal Greek coinage

As is well known, the earliest Greek word for coinage is *nomisma*. Etymologically, this term is related to *nemô* meaning 'to distribute'; *nemesis* meaning "distribution of what is due"; and *nomos* meaning "anything allotted or assigned," generally by convention or custom (von Reden [1995] 2003, 177; see also Seaford 2004; Kurke 1999). Initially, then, *nomisma* was associated with distributive order, implying that something was "given out," "distributed," or "measured out" (von Reden [1995] 2003, 177). One may conclude that coins became the tokens of 'just distribution' of that which was due by convention (177).

The administration of distributive justice is, therefore, key to understanding the origins and functions of early Greek money and coinage. A crisis of redistributive justice can already be observed in Homeric societies, as manifest by excessive appropriation of durable wealth within the community of nobles:

> At any rate Homer reveals a world which seems to make sense when viewed as a society in which reciprocity (gift exchange) and hierarchical redistribution were dominant. Certain types of goods circulated in closely defined contexts. Gifts circulating among those of top rank included finished objects of metal, cattle, and women. Meat and related products (hides and textiles) seem to have been controlled from above and redistributed down the social structure.
>
> (Howgego 1995, 13–14)

The unequal distribution of wealth prompted a "decline of faith in the reliability of divine justice" (von Reden [1995] 2003, 175), thereby creating a new social problem of instituting "a political means of payment controlled by humans so that they would not have to rely on the uncertain rewards of the gods" (220). Such means of payment would eventually be established by the civic authority of the *polis* in the process of its political confrontation with the old aristocracy, the latter being associated with the now declining authority of divine justice.

In establishing its own model of distributive justice, the emerging authority of the *polis* adopted the idealized model of communal egalitarian distribution, but substituted durable metal objects for perishable pieces of meat (Seaford 2004). The idea was that "social justice could be achieved politically by the ritual of distribution of pieces of metal" (von Reden [1995] 2003, 177). The emerging authority of the *polis*, then, attempted to dismantle the aristocratic model of power by distributing metal pieces to those who accepted the political authority of the *polis* instead. The distribution of metal pieces into the hands of the citizens would subvert the aristocracy's monopoly over the use of (precious) metal in the closed sphere of aristocratic gift-giving (Kurke 1999).

At first, the pieces of metal distributed were the iron spits utilized for the roasting of the sacrificial animals. The production of such spits began on a large scale during the late eighth century BC (or around 700 BC) leading to their mass production during the entire seventh century BC. The roasting spits continued to circulate, though in smaller quantities, until the first half of the sixth century BC. During this period, the roasting spits (which were destined for communal distribution) came to be standardized in size, reflecting the old sacrificial tradition of "equal portions to all" (Seaford 2004, 106). Gradually then, the distribution of roasting spits came to be replaced by the allotment of coinage, which likewise came to be standardized. It is no wonder, then, that *obolos*, a sixth-century BC silver Greek coin, derived its name from *obelos* meaning an iron spit. Another sixth-century BC Greek coin of a larger denomination, *drachma*, originally meant a handful of six spits (Seaford 2004).

Obviously, the earliest Greek and Lydian coins did not begin as media of exchange in commerce, but functioned "in the same fashion as the portion of food distributed at the sacred meal" (Desmonde 1962, 125).[7] The purpose of coinage was to "(re)establish social justice within the *polis*" (von Reden [1995] 2003, 177). In contrast to the uncertainty associated with divine justice, coinage could compensate virtue "immediately and precisely" (177), and payment in "stamped tokens" came to be associated with "just recompense" (175).[8] Possession of coinage came to signify the acceptance of the civic authority of the *polis* (175).

We do not know for sure the exact mechanism via which coinage circulated during the early stages of its development. What we do know is that coinage was distributed by the *polis* to its male citizens. It has also been established that some of the earliest monetary "transactions" were carried out among unequal social partners, and included sexual "exchange" between men and women. Whether or not all women receiving monetary payments in exchange for provision of personal services could be regarded as prostitutes remains a subject of a growing debate (see von Reden [1995] 2003, 195–197). Yet what seems relevant for the purposes of this discussion is that the use of coinage in payment for goods evolved out of its use in payment for personal services. Seaford (2004) seems to imply this transition when he hints that possession of coinage may have financially liberated some women: "[t]he greater ease of exchange and of storing wealth that came with precious metal money may have freed some prostitutes from dependence on the protection provided by specific males" (Seaford 2004, 156).

While we may never find out exactly how coinage entered the sphere of market exchange, we may conclude by emphasizing the Chartal nature of early Greek coinage. Introduced by the city-state as a unit of account for expressing the worth of its male citizens, the purpose of coinage was to resolve the crisis of distributive justice. Rather than market exchange, coinage was a product of a complex political evolution, and the development of coinage was closely linked to state formation.[9] As will be discussed below, the final choice of silver as the minting metal for coinage was a political decision and had little do to with the intrinsic properties of the metal.

While the rise of coinage and monetization were closely linked to state formation and power, a "thoroughgoing monetization of economic activity" required a more "aggressive insistence of the state" such as "insistence on payments of monetary taxes" (von Reden 2001, 66). To achieve that, the state would have to "propagate and implement its own commitment to money" (66) by using coinage as a means of payment in its own transactions (see Peacock 2013). According to Seaford (2004), the centralized use of coinage for both state expenditures and contributions to the state, facilitated the democratic control of the financial system:

> this centralized use of coinage both for expenditure (notably uniform mass payments) and for contributions (liturgies, taxes) must have facilitated—after the fall of the tyranny—the control of the financial system by the democracy, which was thereby able to distance such crucial institutions as the military and the law courts from the influence of personal patronage.
>
> (99)

The social and ideological significance of Chartal Greek coinage

Similar to the pieces of roasted meat distributed during communal sacrificial rituals, the earliest Greek coinage served as "a token of egalitarian ideology" (Kurke 1999, 14). Given the association of gold with the old aristocracy and the crisis of redistribution as manifested by unequal distribution of metallic wealth (most importantly, gold and gold artifacts), the *polis* chose silver as the minting metal. Silver coinage aimed to represent "the community of citizens" who were all equal as they were made of "the same noble substance" (309).[10] Within the Greek *polis*, citizen rights were materialized precisely via the possession of coinage. "Insofar as a citizen is like a coin, he is not a slave, a metic, a barbarian, or the victim of a tyrant; nor is he overwealthy or divine" (316). The "silver standard" aimed to provide for non-arbitrary and stable valuations of men: a "proper valuation and use of citizens" (299). But could the *polis* value all men equally?

As is well documented, despite the widespread presence of egalitarian ideology, the Greek *polis* was highly hierarchical in its social structure. While male citizens were granted a full set of rights, including the right to own land and real estate, the remainder of the population, "in some cases far more numerous, belonged to lower categories and possessed only limited rights" (Migeotte [2002] 2009, 39). While public assemblies of free citizens deliberated on decisions of public concern, women were excluded from such decision-making bodies.[11] Public decisions and executive responsibilities for the running of the *polis* remained firmly in the hands of male citizens. At the bottom of the social ladder were the slaves, who made up a large portion of the labor force in the household and public domains, as well as in agriculture. "Slavery and servitude were practical necessities" for the ideal of citizenship embodied liberation from manual labor and the pursuit of politics, prayer, and study instead (42; see also Finley [1953] 1981).

While citizen rights could be granted to former slaves for their participation in the war efforts, the new citizens would nevertheless be perceived as "wicked little bronzes" (Kurke 1999, 327). This contrast with pure silver citizens obviously implies the presence of "differential citizen quality" as some citizens were more equal than others (327). Furthermore, because they did not enjoy citizen rights, women could not obtain coinage directly from the *polis*. As von Reden ([1995] 2003) underscores, coinage remained "an exclusive symbol of man and his city" (206).

Thus, despite the presence of egalitarian ideology, the Greek city-state was plagued by clearly defined socio-economic hierarchies. While the ideological purpose of coinage was to restore greater equality and solidarity, the reality of coinage was that of inequality and exclusion for all but male citizens.

Was the "state proper" necessary for the origins of money?

As documented above, religious authorities in Ancient Greece were instrumental in the establishment of a standardized unit of account. Here, it bears noting that Ancient Greek religion did not occupy "a separate" sphere of social life. Rather, religious practice and ideology were firmly woven into the social, political, and economic fabric of society. For practical matters, the relationship between political and religious authorities was difficult to disentangle (Seaford [1994] 2003; see also Semenova 2011a, 2011b). It was in the vicinity of the chieftain's house that offerings to deities and communal sacrificial rituals were conducted. It was out of the chieftain's dwelling place that archaic Greek temples came to emerge, the temples being "among the very first manifestations of the polis" (Seaford 2003, 197).[12] Similar to the case of Ancient Egypt (see Henry 2004), Ancient Greek religion served as a unifying social force as the substance of socio-economic relations was undergoing a fundamental transformation from egalitarian to hierarchical societies. While Homeric societies did not yet exhibit the features of the state proper, the transition from egalitarian to unequal societies already took place. Homeric societies featured political leaders whose power rested on their wealth and ability (though a limited one) to act as redistributors of the social surplus, as well as their authority over lower-status chiefs (Seaford [1994] 2003; see also Peacock 2013).

While the new political institution of the Greek *polis* was instrumental in the establishment of coinage, it would be misleading to assert that coinage emerged as a creature of a fully consolidated city-state (Peacock 2006, 645). Such an assertion "would imply that an already existing body, the state, created a new phenomenon, money" (645). Both coinage and *poleis* were the products of a long evolution, and as the developing city-state played a role in the emergence of coinage, so did coinage play a part in the rise of the city-state (see Peacock 2006, 644–645; 2013). It was not until the last quarter of the sixth century BC that we see some of the salient attributes of a state apparatus. And it is no coincidence that the final standardization of coinage did not occur until that time period as well (von Reden [1995] 2003).

To conclude, while the state proper was not necessary for the introduction of money, the origins of money required the rise of a ruling class, as well as a corresponding transformation from egalitarian to socially stratified societies.

The rise of money and class society in Ancient Egypt: the contributions of John F. Henry

Henry (2004) puts Chartalist theories to a historical test when he applies them to the context of Ancient Egypt. Henry's account of money's origins in Ancient Egypt reveals trends remarkably similar to those observed in Ancient Greece, namely that the origins of money were closely intertwined with (1) the development of social stratification; (2) the religious character of early non-egalitarian societies; and (3) a fundamental shift in the substance of social obligations which corresponds to the shift from totemism to state religion.

According to Henry, up to about 4400 BC Egyptian populations lived in egalitarian, tribal arrangements. The first instances of inequality can be located in 4400–4000 BC, as indicated by the archeological evidence of grave burials. Within the next millennium (4000–3000 BC), inequality became more pronounced, carrying markedly into the Naqada III period (3500–3200 BC). At this time, we see some evidence of kingship emerging, though the new leaders would be properly described as proto-kings. Kings proper appeared after 3000 BC, along with a system of proto-taxation and a bureaucratic apparatus of the king. Importantly, at this time one sees the rise of monumental temples and the development of state religion centered around the king. During the Early Dynastic Period (3000–2625 BC), inequality continued to grow and cemented itself as increasingly "normal," a development which culminated in the 2625–2130 BC period (the Old Kingdom) which saw a solidification of the relationship between the King (Pharaoh) and the principal deity of the state religion (Henry 2004). Evidently, the rise of inequality was a gradual process which took place over thousands of years. Rather than taken for granted, the transition from egalitarian to unequal socio-economic structures has to be explained. How exactly did this happen?

Henry explains that early successes in agriculture allowed for the creation of a small economic surplus which made it possible to release some labor from direct agricultural production. Yet, Henry cautions that the development of agriculture and surplus production in and of themselves cannot explain the rise of inequality. After all, the members of the tribal community could equally distribute the surplus amongst themselves. And "it was a thousand years from the dawn of agriculture to the first evidence of inequality" (Henry 2004, 84).

Recognizing the importance of the division of labor, tribal societies would at some point designate a portion of the population to specialize solely in hydraulic activities to improve their ability to control the Nile (Henry 2004). At that time, a fixed share of surplus production would be designated for hydraulic activities and projects. As surplus production grew over time, with the share devoted to hydraulic activities remaining unchanged (as it was fixed by convention), the absolute amount of goods flowing to hydraulic engineers from the tribal villages grew. As this development took place gradually (due to the gradual increase in the surplus production), the absolute increases in tribal contributions to hydraulic projects were invisible at first. Contributing to this was also the physical separation of the engineers from the rest of the community.

As hydraulic engineers began to accumulate goods beyond that which was necessary for the carrying out of the hydraulic projects, the *substance* of social relations between the engineers and the tribal communities started to change. While the *appearance* of social relations may not have changed (after all, as customary, a fixed share of surplus production was flowing to the engineers), the substance of those relations was undergoing a fundamental transformation. Henry explains that with the growth of the surplus, *all* members of the community saw a rise in their standards of living. However, the hydraulic engineers saw a relatively greater increase, given that a fixed share of a growing surplus was being channeled to a relatively small group of the population. Henry estimates that in the early stages of this transformation the differences in growth rates were as little as 0.05 percent. However, over 1,000 years, even a 0.05 percent difference would lead to "clearly observable absolute differences" (Henry 2004, 85).

By the time inequality came to be strikingly visible, the now dominant class (the former hydraulic engineers), needed to justify the new socio-economic relations as well as keep the flow of surplus production moving in their direction. To achieve that, the dominant class had to "present the veneer that nothing fundamental had changed when, in fact, *everything* of substance had been altered" (Henry 2004, 87, original emphasis). And it was through the apparatus of religion that the new ruling class presented an appearance of old communal relations, thus maintaining its grip on socio-economic power (87).

Specifically, hydraulic engineers now turned priests, subverted the substance of tribal totemism by elevating the priest-king to a position of authority in communicating with nature (Henry 2004). In substance, this amounted to the rise of state religion, while communal obligations to support hydraulic projects were converted into "taxes" aimed at maintaining a privileged segment of the population. Furthermore, a book-keeping system had to be developed through which tax assessments and payments could be recorded. And it was within this administrative book-keeping context that a standardized unit of account—the *deben* unit—was introduced.

The *deben* unit was initially equated to ninety-two (or ninety-one) grams of wheat. Later in the Old Kingdom, wheat was replaced by copper, and later yet, gold and silver superseded copper. Regardless of the particular good, the unit of account corresponded to a weight unit of ninety-two grams. While goods and labor services were valued in *deben*, no *deben* units could obviously change hands. Thus money came into being "as simply non-tangible unit in which obligations are created and discharged" (Henry 2004, 93).

Henry's account of money's origins in Ancient Egypt supports the Chartalist view that money is not a "thing" but a social relation whereby a large group of the population is obligated to a minority group in a non-reciprocal fashion. In the words of Henry (2004):

> It is not "the thing" that matters, but the ability of one section of the population to impose its standard on the majority, and the institutions through which that majority accepts the will of the minority. Money, then, as a unit of account, represents the class relations that developed in Egypt (and elsewhere), and class relations are social relations.
>
> (95–96)

And, as noted earlier, state religion (disguised as the old tribal totemism) served as the primary institution through which the majority accepted the will of the minority.

Lastly, Henry's exposition makes it obvious that the rise of inequality in Ancient Egypt was an accident of history, rather than history's natural progression. When tribal villages allocated a fixed portion of surplus production toward the maintenance of the Nile, they could not possibly foresee that over a thousand years this would lead to an emergence of a privileged socio-economic class. The mere notion (or idea) of inequality could not possibly exist in an egalitarian society. Rather, the idea of inequality had to come from the practice of inequality, the latter being an unforeseen long-term consequence of a seemingly innocent tribal decision to support hydraulic engineers in their efforts to control the Nile (Henry 2004):

> A segment of an egalitarian society cannot (and would not) simply set itself up as a separate and unequal class *de novo*. Where would this segment get its idea of inequality? The idea must follow from the practice of inequality, and this practice would have to develop as a consequence of historical accident rather than conscious plan. In Egypt, the process took over one thousand years to reach fruition and was initially the result of tribal decisions, the long-run consequences of which could not be foreseen.
>
> (86–87)

Conclusions: from Chartalism to Modern Money Theory and greater equality

In this chapter, we examined the building blocks and the intellectual history of Chartalism—an alternative approach to money and credit—now called Modern Money Theory (MMT). By examining the nature and origins of money in Ancient Greece and Ancient Egypt, we further demonstrated the historical applicability of the Chartalist perspective. We will conclude by addressing the implications of the Chartalist approach for our understanding of fiscal policy as practiced in the policy space available to a government that issues its own sovereign currency.

First, modern money is a state money: the state chooses the money of account, imposes taxes and other obligations in that unit, and accepts payment in that unit. When it comes to the state's ability to issue IOUs (whether currency, Central Bank reserves, or Treasury securities), what matters is their acceptability on the demand side. As a sovereign power, however, the state can mandate at least some demand for its IOUs by imposing taxes that must be paid in the state's currency. Beyond that, by sitting at the apex of the "money pyramid," the state's IOUs are demanded for clearing purposes and the maintenance of reserves (Wray 2014a).

Second, the Chartalist framework conflicts with the conventional "government budget constraint" (GBC) notion, according to which government spending must be 'financed' by tax revenues, borrowing, or "printing money." The GBC view essentially presumes that the government is a user of a currency, not an issuer. In that, the government is like a household or a firm as it must obtain "income" (revenue from taxes, fees, and fines) or "borrow" (issue Treasury securities) (Wray 2014a).

Within the MMT framework, government spending logically comes *first*, i.e., before government obtains tax revenue or sells bonds. If the government receives in tax payments its own IOUs, it must first supply them before taxes can be paid. And if bond purchasers must use the government's IOUs to pay for the bonds, then the government must have spent (or lent) its IOUs before it sold the bonds. While it might appear that the bond sales "finance" Treasury spending, in reality, bond sales are undertaken to drain excess reserves that would push overnight interest rates below their policy target. In reality, money creation, tax receipts, and bond sales are all different parts of the process of government spending. They are not the alternative ways to "finance" government spending. This would have been more transparent if the sovereign governments spent by raising a tally or by minting new coin (Wray 2014b, 2014c).

Obviously, the state can impose constraints on its ability to issue IOUs, such as the budgetary process, a debt ceiling, a balanced budget requirement, or Maastricht-like debt and deficit limits. The state could make a sovereign currency system operate more like the imaginary commodity money system, by requiring conversion on demand to gold or foreign currency. Any of the above constraints would necessarily be self-imposed political constraints, as they do not come about "naturally" due to a "commodity nature" of money (Wray 2014a).

The government's ability to impose liabilities, name the unit of account, and issue the money used to pay down these liabilities gives a substantial measure of power to the authority (see Wray 2014d).[13] There is, thus, the potential to use this power to further the public good through the use of fiscal, social, and employment policies, as was the case during the "Age of Keynes" (1947–1975). During that time, the US government

> enforced the basic bargain—using Keynesian policy to achieve nearly full employment, giving ordinary workers more bargaining power, providing social insurance, and expanding public investment. Consequently, the share of total income that went to the middle class grew while the portion going to the top declined.
>
> (Reich [2011] 2013, 49)

During the Keynesian period, "Almost everyone who wanted a job could find one with good wages, or at least [real] wages that were trending upward" (43). Everyone saw their real income grow, not just the top 1 percent or the top 10 percent of income earners (43).

As is well known, Keynesian policies came to an end by the mid-1970s. Ever since then, the trend toward greater equality has been reversed. Since 1976, the bottom 20 percent of income earners saw their real incomes stagnate as more and more wealth and income accrued to the very top. In 2007, 23 percent of all income in the United States accrued to the top 1 percent of income earners (compared to 8 percent of all income in 1980) (Reich 2010). Confronted with stagnant real wages, American workers increasingly had to rely on debt to support their standards of living, thereby supporting the interest and other income of the financial sector.

While in the late 1970s fiscal policy was downgraded due to its alleged inflationary impact (see Taylor 2011), today's discourse on fiscal policy is centered around a false belief that government's spending is financially constrained by the government's ability to tax or borrow. Chartalism and MMT make it clear that any constraints on government's spending are self-imposed institutional constraints which could be removed via a democratic decision-making process.

While the origins of money are to be found in the origins of inequality, a well-functioning democratic society has the power to subvert the inequality-inducing characteristic of money via the use of money for public purpose. Examples include federal funding for locally administered jobs, as well as the federal government's support for a living wage. There are numerous areas where federally funded jobs could be created and maintained: public infrastructure (including green energy projects), education, community development, public health care, public housing, and social services, among others. Such programs would support a stronger middle class thereby reducing the power of the financial sector as reliance on credit would be significantly lowered. The federal government could likewise support a universal, single payer health care system thereby eliminating for-profit health insurance companies who have enjoyed skyrocketing profits while medical debt among households *with* health insurance has been rising. In 2007, medical bills contributed to 62 percent of personal bankruptcies in the United States, while three-quarters of those who filed for bankruptcy due to medical bills had health insurance on the onset of illness (The Henry J. Kaiser Family Foundation 2014).

Income and wealth inequality is not simply a matter of economic injustice. The costs of inequality encompass deteriorating mental and physical health, including the obesity epidemic; poor educational performance among children; erosion of community life and social relations, among others (see Wilkinson and Pickett 2010). MMT unveils the power of the monetary system to serve the public interest by restoring healthy and functional communities and building a more equitable and just future via government's commitment to full employment. There are no 'financial constraints' that prevent the government from achieving these goals.

Notes

1 For a detailed exposition of the Metallist approach, see Menger ([1871] 1981, 1892, 1900, [1909] 2002). For a detailed exposition and a critique of Metallism, see Wray (1998) and Semenova (2011a, 2011b, 2014).

2 The terms *Chartal* and *Chartalism* derive from Greek *chártēs* meaning papyrus leaf, sheet of paper, literally something to make marks on.

3 While social obligations existed in egalitarian societies, "such obligations were internal to the collective itself and of a reciprocal nature: all had obligations to all" (Henry 2004, 84). Social arrangements where some owed obligations to others in a non-reciprocal manner did not exist in egalitarian societies (84).

4 Recently, Laum's (1924) contribution has been revived by Seaford (2004), von Braun (2006), Peacock (2011, 2013), and Semenova (2011a, 2011b).

5 While Homer provides detailed descriptions of the rituals, the sourcing of sacrificial animals receives little attention (Seaford 2004). Most likely, though, sacrificial offerings were made by the nobles who were among the few who actually owned cattle and other highly prestigious goods (Peacock 2013; see also Martin 1996).

6 Martin ([1996] 2000) observes the existence of social hierarchies in Greek societies as early as 950 BC.

7 It comes as no surprise, then, that so many of the earliest Greek and Lydian coins bore an image of a bull or a bull's head on their surface (Gardner 1883; Head [1894] 1968), thus signifying a link between the origins of money and religion. We also know that many of the early terms associated with money have religious significance, such as debt, sin and repayment (see Wray 2012b). What is more, the value of the earliest coins could not derive from their metal component: the earliest Lydian coins were made of electrum, a natural alloy of gold and silver, the internal composition of which is highly variable by nature. This means that a coin's weight, purity, and fineness could not be standardized, and the earliest coins could not serve as the standardized media of exchange in commerce (Grierson 1977; Innes 1913; see also Kurke 1999). Robert Cook (1958) and Colin Kraay (1964, 1976) situate the origins of Greek coinage in the context of administrative state payments (payments by the *polis*, and payments to the *polis*).

8 An example of just compensation could be *misthos* received by the Athenian citizens for the services rendered to the *polis*. Unlike *wage*, which is payment for hired labor, *misthos* represented a "collective counter-gift" from the *polis* to the citizen to compensate and express his *timè* (worth) (van der Vliet 1998, 499).

9 It is possible that the use of coins as the media of exchange in commerce was an unintended consequence of the coinage, rather than the reason for its introduction in the first place (see Wray 2000).

10 The association between citizens and coinage can be confirmed by the Athenian legal practice of *dokimasia*. Derived from *dokimos*, meaning to examine and approve coinage, *dokimasia* was a fourth-century BC procedure via which the *polis* "proofed its citizens, testing the quality of their birth and behavior" (Kurke 1999, 310).

11 As is well established, women were regarded as minors, as dependents of men, be it a husband, a father, a son, or a male relative (Migeotte [2002] 2009; Atwood 2008).

12 A similar observation was made by Morgan ([1877] 1985) who traced the transition from "democratic gens" ([1877] 1985, 67) to hierarchical social arrangements led by the office of a "high priest." Morgan concluded that "the gens became the natural centre of religious growth and the birthplace of religious ceremonies" (81).

13 It bears noting Michael Mann's distinction between "despotic" and "infrastructural" power of the state (see Mann 1993, 59–64). Ingham (2004b) applied this distinction to the institution of money, thus underscoring money's "dual nature" (20). While money can expand a given "society's capacity to get things done, as Keynesian economics emphasizes," this infrastructural power of money "can be appropriated by particular interests" (20).

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Part III

The heterodox economics of John F. Henry

13 Property and the limits to democracy[1]

John F. Henry

My argument here is that what is usually understood by democracy is determined by, and constrained by, the prevailing property relations, and these relations constitute the economic foundation of society. It may be true that we don't live by bread alone, but without bread we don't live at all. And, to a large extent, how we organize our institutions, how we think, and how we behave are determined by how we get our bread.

Let me begin by stepping outside existing property relations and enter the world of a slave system, specifically that established in the American colonies. Let us begin with John Brown.

As a national icon, John Brown occupies a rather uneasy place in our history. To some, he's a figure of super-heroic proportions; to others, a criminal of the highest order; to still others, a crazed fanatic. Our view depends on where we're standing; and that depends on the position we take on slavery.

However one feels about John Brown, it must be acknowledged that he was no democrat, at least in any ordinary sense of the word. Slavery was constitutionally protected, was part of the larger US democracy, and was seen by much of the non-slave population to be meek, right, and salutary. John Brown did not submit his actions in Kansas or in Harper's Ferry to a vote. He did not call upon Congress to propose a constitutional amendment to eliminate slavery. Rather, he engaged in violently illegal and undemocratic actions, first shepherding slaves through the New York portion of the Underground Railway—which, after the Fugitive Slave Act of 1850 was a federal crime—then organizing free soilers in Kansas to make war on the slaveholders and their Missouri thugs who had terrorized the small farmers of that territory, then raiding the federal arsenal at Harper's Ferry to secure arms so slaves could free themselves in revolt. He was a criminal, a murderer, a violent, bible-thumping, unforgiving Old Testament avenging angel—and one of my heroes.

What John Brown did was to look the dominant property relations of the South squarely in the eye and say:

> This is an evil. No power on earth or in heaven can justify the enslavement of human beings. And, by God—he *was* a religious man after

all—if those who occupy the seat of government will not remedy this evil, then I must.

What Brown feared was that, following the repeal of the Missouri Compromise and the Dred Scott decision of 1857 which denied citizenship to blacks, slave or free, the abolitionist movement, comprised mainly of those who sought to abolish slavery within the constraints of established democracy, would simply disappear. The sentiment was that the South was absolutely recalcitrant on the issue of slavery and that the northern states should secede from the Union and let the south to its own devices. Should this have occurred, the dominant property system of the South would have continued, perhaps for one generation, perhaps three, perhaps longer. And 95 percent of the black population would have continued to suffer the abuses, the life-crushing force of that infernal property relationship.

John Brown helped change that possible course of history. The Civil War began in Bloody Kansas and it was begun by a small group of men who violated the rules of the slave democracy and unleashed the whirlwind.

We must at this point ask a set of fundamental questions. In retrospect, most of us, and I'm sure everyone in this room, recognizes the vile, inhuman nature of a propertied system based on slavery. We ask, how could such a system be devised; how could it possibly be justified; how could it be allowed to continue? Let us take up these questions in turn as they bear on issues we must address in a bit.

Slavery was devised by force. Whether in Athens, Rome, or the United States, no one asked the slave's opinion on whether slavery was a desirable arrangement; no one subjected the question to a vote. Property in slaves was organized through coercion. In this, the law played a part, the policing mechanisms played a part, the governing bodies played a part, intellectuals played a part.

Slavery was justified on the basis of natural law, the law of natural inequalities. Aristotle first argued it: slaves are naturally inferior. If they weren't, they wouldn't be slaves. In the United States, supposed natural inferiority took on an added dimension. As slaves and slave owners were generally of different physical characteristics, natural slave inferiority was ascribed to a supposed "racial" foundation. Racist ideology was then developed—by leading statesmen, academics, religious officials—which "proved" the underlying racial inferiority.

As slaves were naturally inferior, then slave owners, rather then being advantaged by such property, were actually undertaking a burden. Left to themselves, such people would exist in a Hobbesian jungle. Their lives would be short, brutish, and mean. Under the benevolent, if sometimes harsh, care of their superiors, however, they would enjoy a richer, more enjoyable existence.

So, if we were attending the University of South Carolina in 1858, our social sciences courses (most likely announced with "Moral" in the titles) would have extolled the virtues of slavery, underscored its efficiency, its basic humanity, and praised the social worth of its chief beneficiaries.

But many, perhaps most, didn't really buy the above argument. Yes, the majority might have been educated to believe that Africans were inferior (though not John Brown), but still, slavery had to be perceived as fundamentally unjust. Didn't it? How then to explain the 200-year life of such a society? Mark Twain, I think, provides the fundamental explanation.

In "My First Lie and How I Got Out of It," Twain points his barbed pen at the "lie of silent assertion." I quote:

> It would not be possible for a humane and intelligent person to invent a rational excuse for slavery; yet you will remember that in the early days of the emancipation agitation in the North the agitators got but small help … from anyone. Argue and plead and pray as they might, they could not break the universal stillness that reigned, from pulpit and press all the way down to the bottom of society—the clammy stillness created and maintained by the lie of silent assertion—the silent assertion that there wasn't anything going on in which humane and intelligent people were interested.
>
> The spoken lie is of no consequence. The silent colossal national lie that is the support and confederate of all the tyrannies and shams and inequalities and unfairness that afflict the peoples—that is the one to throw bricks and sermons at. But let us be judicious and let somebody else begin.

In propertied societies, we are taught to accept the authority of the institutions extant. What exists is good and proper. Those who challenge authority, in particular the authority of the prevailing property relations, are clearly outside the pale, not worthy of respect nor, in many case, of life and limb. After all, they are challenging what is natural, what is normal. It's best to stay mum, to pretend that there's nothing going on that could possibly be of interest. To do otherwise is to risk being labeled unrespectable. It is far better to be seen as a respectable member of society, and this, in my opinion, is the greatest intellectual sin a person can commit—in particular those labeled academics.

Well, John Brown did not play by those rules. His rules were not those laid down by propertied authority but were those of divine justice. While we need not accept Brown's supposed origins of those rules, and I certainly do not, we can nonetheless appreciate their force. And in his last written statement following his sentencing, John Brown summed up the basic class issue that all propertied societies raise:

> had I so interfered in behalf of the rich, the powerful, the so-called great, or in behalf of their children, or any of that class, and suffered and sacrificed what I have in this interference, it would have been all

> right, and every man in this Court would have deemed it an act worthy of reward rather than punishment.
>
> This Court acknowledges, as I suppose, the validity of the Law of God. I endeavored to act up to that instruction. I believe to have interfered as I have done in behalf of His despised poor, was not wrong, but right. Now, if it is deemed necessary that I should forfeit my life for the furtherance of the ends of justice, and mingle my blood further with the blood of my children, and with the blood of millions in this slave country whose rights are disregarded by wicked, cruel, and unjust enactments, I submit: so let it be done!

Now, capitalist property relations are not those of slavery to be sure. But, still, we face many of the same problems in rationally justifying such property as did the slave owners and their ideological representatives in justifying slavery.

The classic argument starts with John Locke in his second *Treatise of Government*. Much ink has been spilt in the long-standing debates surrounding that work and even I've contributed a couple of essays—of course, I *do* get it right. Regardless of a number of controversial issues, there are two aspects of Locke's general theory that are non-contentious. One, Locke held a labor theory of property: property was justified if it was created by one's own labor. True, the horse and the servant pose problems in this regard, but we can ignore this for the point at hand. Second, the acquisition of property cannot disadvantage the larger community. Those who acquire private property—and it was land that was at issue in the 1600s—could do so only if "there was still enough, and as good left, and more than the yet unprovided could use." As well, Locke imposed a spoilage constraint. None could appropriate property beyond an amount that would allow sufficient consumption by the property owner. To do so would deny the fruits of that same property to others and, thus, would "prejudice" them.

Locke's argument is a defense of individualized property, a form of property consistent with petty production—small-scale peasant farming and craft production. Private property exists, but it is constrained by the nature of the production process *and* by a social or moral constraint: private property cannot disadvantage the non-propertied portion of the community. And if property did disadvantage the community, Locke allowed the right of seizure. For Locke, the community's right to subsistence overrode the right to property—or, at least so he argued.

In Locke, one sees the Jeffersonian justification of property and its relationship to democracy, at least one form of democracy. From Jefferson's "Notes on Virginia":

> Those who labor in the earth are the chosen people of God. Corruption of morals in the mass of cultivators is a phenomenon of which no

> age nor nation has furnished an example. Dependence begets subservience and venality, suffocates the germ of virtue, and prepares fit tools for the designs of ambition. The proportion which the aggregate of the other classes of citizens bears to that of its husbandmen, is the proportion of its unsound to its healthy parts, and is a good enough barometer whereby to measure its degree of corruption.

The notion here is that small-scale property—or self-ownership—produces a specific set of characteristics among the population: hard work, an independent cast of mind, a rough equality, a virtuous body politic that resists corruption and is itself incorruptible. Economic dependence promotes the opposite set of characteristics.

Individualized property rights dominate the literature on property. We see such a property form in Adam Smith (at least in the first five chapters of *The Wealth of Nations*), in Jean Baptiste Say, the *real* father of neoclassical economics, in almost all the major figures of the eighteenth and nineteenth centuries. It remains the central, unifying principle (though usually in an obtuse fashion) around which modern conventional economic theory is developed and is particularly evident in current libertarian thought such as that of Friedrich von Hayek and Milton Friedman. One can even find mild support for this form of property in Marx and Veblen.

The problem, at least for social theory, is that individualized property is not capitalist property: individualized property *rights* are not capitalist property *relations*. And this distinction is of utmost importance.

Capitalism, like all other propertied societies, is not comprised of property *rights*, but property *relations*. And property relations describe the relations among people, not the relationship between a person and a thing, be it land or a refrigerator. And here's where all theory founded on individualized property falters.

The basic property relationship in a capitalist society is that between property owners who control more productive property than they themselves can efficiently operate with their own labor, and a class of propertyless workers who sell their labor services—as this is all they have to sell—to those who control that property.

However, the existence of a necessary working class abrogates the Lockean standard, or any other standard based on individualized property rights.

For such a relationship to develop, property owners must already command more property than they themselves can effectively utilize with their own labor. If some stand ready to sell labor skills, others must stand ready to buy those skills. The property holder must obviously have a use for these services and this means that the property under their control must be useless without those skills—an amount of property that violates the initial conditions on which the Lockean-based standards of efficiency and equity rest.

On the other side of this relationship, labor can not have access to "enough and as good" property on which to apply their own labor. Capitalism requires a labor market for its existence. If workers established independent production relations, capitalism simply could not exist.

Thus, the formation a working class requires coercive measures to *force* people into this relationship. And this process is what Adam Smith called "original accumulation," and what Karl Marx later termed "primitive accumulation."

At one time, a significant portion of the population did control enough of the means of production or have sufficient access to non-propertied land—the commons—to allow them a rough economic independence. For the new property relations unfolding, this population had to be deprived of their ability to function independently.

Peasants were driven off land they had occupied for centuries. The various enclosure movements which continued into the twentieth century in England, Scotland, and various European countries, and which continue today in Latin America, Africa, and Asia, forced millions of small producers into a situation where they had no choice in making a living except to sell their services to others. If one examines the literature of the eighteenth and nineteenth centuries, one finds a mass of evidence demonstrating that the enclosure movement and destruction of the commons was not only necessary for the creation of a class of wage earners, but was inextricably linked to the creation of dependence and servility. From the 1794 *Report on Shropshire*:

> The use of common land by labourers operates upon the mind as a sort of independence. [Once deprived of commons] the labourers will work every day in the year, their children will be put out to labour early [and] that subordination of the lower ranks which in the present times is so much wanted, would be thereby considerably secured.

In addition, the force of the law—controlled by large property holders through their government representatives—was brought to bear on this emerging class.

The Black Act of 1723 criminalized a range of activities which had once been seen as legitimate exercise of traditional rights in the use of the commons—cutting wood, fishing, etc. The Game Laws were instituted to eliminate the hunting privileges of the poor in order to, quoting Blackstone, "inhibit low and indigent persons from pursuing the hunt rather than their proper employments and callings." The Vagrancy Act of 1744 empowered magistrates to whip, imprison, and in extreme cases, execute "all those who refused to work for the usual and common wages." And with the New Poor Law of 1834, one sees the law coercing the working poor into a life of serving the interests of the propertied. As the Poor Law commissioners stated in their Report:

> We can do little or nothing to prevent pauperism; the farmers will have it: they prefer that the labourers should be slaves; they object to their having gardens, saying "The more they work for themselves, the less they work for us."

The modern police force was developed during the tenure of Robert Peel and was first used to break strikes in Manchester and the industrial north.

Even the notion of time was altered to facilitate the development of a disciplined working class—punctual, hard-working, and putting in a good day's work for the wages earned. After all, time is money.

Now, what does all this have to do with democracy?

Modern democracy is a creation of capitalism. With the destruction of feudalism, the previous hierarchical methods of rule had to be modified. Some method had to be found to allow the various competing interests of capitalist property owners to find satisfactory resolution. This was modern democracy. As our own James Madison put it:

> A landed interest, a manufacturing interest, a mercantile interest, a money interest … grow up of necessity in civilized nations and divide them into different classes actuated by different sentiments and views. The regulation of these various and interfering interests forms the principal task of modern legislation.

Democracy was not to extend to the majority of the population, regardless of the specific forms it might take. Note that workers and small farmers were not on Madison's list. In the words of Adam Smith:

> Civil government so far as it is instituted for the security of property, is in reality instituted for the defense of the rich against the poor, or of those who have some property against those who have none at all.

Upon reflection, this is what we should expect. It is reasonable that the political and social structure of society should be consistent with its economic structure. If they are not, social incoherence will interfere with the ability of the economy to function.

Now, with the development of capitalism a strange concept took shape—the economy was held to be separate from governmental and social control. Under capitalism, "the market" is to operate on the basis of its own laws—institutions should not intervene, except in the protection of property rights and the creation and control of a working class. In the United States, the economic sphere was formally isolated from its political constitution and the United States became the only legally based market economy in the world. Note that neither in the body of the document nor in the Bill of Rights do we find a right to employment, a right to subsistence.

In England, the issue of intervention initially raised its head in four major contested arenas—parliamentary reform, the Corn Laws, the Poor Law, and the Chartist movement of the 1830s and 1840s, all connected to the changes wrought by the industrial revolution.

Here, I remark only on the issues raised by Chartism. For the first time, ordinary workers, by this time the majority of the population, organized to demand the suffrage and to participate in the running of the new society.

To be sure, the Chartist movement contained a revolutionary wing, led mainly by Irish workers who, as Irish, had witnessed the futility of parliamentary politics at close range. But, in the main, what these workers wanted was the vote, believing that through the suffrage they could participate in the regulation of their economic conditions. What they got was jail, their appeals for membership in the franchise derided as a near-criminal act. And rightly so; it would have been insane to allow the New Poor Law, for instance, to be administered by representatives of the same class for which its scientific methods of social torture were designed.

Only after the British working class had gone through the Hungry Forties and emerged a more docile, malleable class; only after the upper layers of skilled craft workers had segregated themselves from the mass of workers in "business unions" that focused on wages, leaving politics to others; only after workers were directed toward organizations of a moderate, compromising stripe; only then were some, and then all—*men*—allowed to participate in voting for the representatives of property who would govern them. But, no change occurred in the separation of civil matters—in which limited, indirect participation could occur—and economic matters—which were off-limits to any level of popular control.

In the United States, the situation was different of course. If we abstract from the slave economy, there seem to be two main issues confronting the formation of capitalist democracy—subsistence farmers and Indians. Let us first consider the "Indian question" (as it was called).

The original Americans were, in the main, a non-propertied peoples, as was true for all early populations. We do observe some quasi-feudal organizations—the Aztec, Inca, and Mayan civilizations, all of which were remarkably advanced—but, generally speaking, Indians lived in communist arrangements where land and productive equipment was collectively controlled.

And they lived pretty well. It is probable that most of the various tribes and nations enjoyed a standard of living higher than that of the typical European peasant at the time of the conquest.

They also evidenced a form of democracy quite different than that evolving in Europe and the American colonies. All adults participated in the decision-making process seeking to reach consensus on the issues confronting them. As all shared the same social relations, indeed it's difficult to comprehend the meaning of either property or property relations in such a society, they all had the same objective interests in the outcome of whatever the decision may have been. Without property to constrain them, they could reach agreement in the context of a non-coercive social arrangement.

But such people do not make good workers and collectively held land is not private property. The first requirement, then, was to better integrate them into the market economy by destroying their traditional economy. I return to Jefferson.

Jefferson proposed "freeing" Indians from their traditional tenure over the land by convincing them to become small farmers. Somehow, individualized ownership conveyed greater legitimacy than communal control. If this failed, he advocated moving them farther west, which, of course, merely put the problem into the future. If Indians resisted this notion, he recommended "federally supported trading houses" that would assure Indians would accumulate debt and be forced to cede their lands to pay it off. Failing this, war and extermination.

The other issue surrounding the native population was that of their general amiability. As their behavior was not constrained by private property relations, they could be decent—non-competitive, sociable, trustworthy, and above all, generous. Indeed, hospitality—essentially the principle that all had a right to subsistence—was the key institution around which tribal society was organized. The general character of these populations is well-evidenced by missionaries, hunters, explorers, and the colonizers themselves. Let me quote one who exaggerates a bit, but has it generally right:

> They are the best people in the world and above all the gentlest—without knowledge of what is evil—nor do they murder or steal ... they love their neighbors as themselves and they have the sweetest talk in the world ... always laughing. They are simple and honest ... none of them refusing anything he may possess when he is asked for it. They exhibit great love toward all others in preference to themselves.

And now the kicker:

> They would make fine servants. With fifty men we could subjugate them all and make them do whatever we want.
>
> (Christopher Columbus)

From the vantage point of many colonists, Indian society was superior to that of the colonies. Hence, many "went Indian." This was a sufficiently large problem that Jefferson and Franklin exchanged correspondence on the issue.

Of course the solution to the "Indian question" resolved both issues and, over time, people accommodated themselves to the unfolding property relations that were eventually seen as normal and reasonable.

The second main problem was that of subsistence farming. If we continue to abstract from slavery, at one time the majority of colonists were subsistence farmers, and in various regions, subsistence farming continued to dominate the economic landscape through the early twentieth century—Appalachia, for example. Organized around the Lockean ideal, such people formed communities relatively free of market relations, of debt, and other institutions characteristic of capitalist economy. And they were self-governing.

The process of converting such farmers into wage earners was a more-or-less natural process given the early formation of capitalism and its market arrangements and the developed system of private, individualized property among this population. But the process was greatly facilitated by government through taxation which forced farmers into an exchange relationship in order to secure money to pay those taxes. Governments don't accept pigs as payment. As independent proprietors were increasingly drawn into the web of market relationships, they were increasingly drawn into a debt relationship. And, with more time and in a different venue, I would draw out the significance of debt in a capitalist form of economic organization, though this audience is well acquainted with this issue. Some prospered and survived economically, most did not—as must be the case given the property relations that lie at the base of a market-driven economy.

In other words the development of capitalist property relations required the destruction of economic independence on the part of the majority and economic independence was the social foundation of early ideological justification of democracy.

Now, though individualized property rights do not define a capitalist economy, let us agree, for the purpose of argument, that this is a near-enough depiction of small-scale capitalism—what we term competitive capitalism.

As long as production processes are consistent with competitive structures, there is theoretical support for a capitalist economy in one important respect. Such an economy does tend to "deliver the goods." Profit-taking, while not quite synonymous with goods creation, is sufficiently close to warrant faith in the system as conducive to economic progress. We do observe a fairly rapid growth in output and this growth, along with the advances in science and technology promoted by capitalism, has recommended capitalism to all commentators who see a relationship between the increase of material goods and progress. And such commentators argue their case from quite different theoretical positions. Adam Smith, Karl Marx, Thorstein Veblen, Frank Knight, Joseph Schumpeter, Friedrich von Hayek, and John Maynard Keynes are probably the most illustrious and influential economists in this regard.

But all these authorities observed consequences of capitalism that spoke against such an economy. Capitalism is aggressive and it promotes inequality. More important, but linked to the above, material progress under capitalism requires the promotion of individualism—behavior that is fractious, divisive, aggressive, and decidedly anti-social. With the development of capitalism, the producer separates herself from the collective security of the clan or village and stands, seemingly, as an isolated entity. Just as others can no longer depend on her, she cannot depend on others. She stands as an individual and success appears to spring from individual sagacity, luck, or wile. An ethic of individualism springs up in which one tries to advantage oneself regardless of consequence to others. This ethic, captured intellectually in the work of Jeremy Bentham, permeates society and becomes increasingly generalized. How then to reconcile the need to promote the unity symptomatic of a well-functioning society and with most theoretical objectives of democracy with the narrow, divisive, individualist economic interests that promote material progress? Each of the authorities above wrestled with this issue, reaching quite different conclusions depending on his theoretical vantage point.

It seems that the principle mechanism that has been developed to deal with this problem is nationalism, often coupled to religion, sometimes uneasily so, as in the United States. The problem, of course, is that nationalism in particular, while perhaps mollifying the problem internal to one nation state, certainly aggravates the problem at the international level. For nationalism is an engine of war, and when merged with religion could well result in a holy war, a very dangerous development indeed. And, lest you think I'm addressing here developments in the Middle East in particular, I'm not. I remind you that the Nazi government in Germany seamlessly blended its own "Nordic" religion with the most vitriolic nationalism we have yet seen. And when a Cardinal Spellman calls for God's blessing on US military forces in Southeast Asia, I see no fundamental difference. More recently, we have witnessed a heightened fusion of these ideologies, though in the round of patriotic fervor following 9/11 we were told—by former Vice President Cheney, former House Minority Leader Gephardt, former Treasury Secretary O'Neill, and ex-President Bush—to demonstrate our loyalty and our unity by purchasing more goods and increasing our gambling on the stock market. Call it "market patriotism" (Robert Reich, former Sec. of Labor, Editor of *The National Prospect*).

Eventually, small-scale capitalism gives way to the large-scale capitalism of corporations. Now the contradiction between material progress and social disintegration becomes more acute.

Large-scale capitalism is prone to severe depression and economic stagnation. This outcome is based on a contradiction between the ability to produce output—an ability which grows enormous with the technological developments fostered by capitalist property relations—and the ability to sell that output at profitable prices. Financial objectives now dominate production objectives. To attempt to manage this contradiction, firms seek to control the level of output, that is, to restrict output below that which technology would allow. Rather than an engine of growth—that which recommended it in spite of its destructive forces—capitalism now appeared to many to be a drag on further material prosperity. In the last quarter of the nineteenth century we begin to see the call for some form of change in the way the economy was organized. Many called for government to step in and, if not control the economy through direct ownership, at least regulate it through active intervention—a repudiation of the non-interventionist ideology capitalist property relations initially promoted. This was the demand of the populist and progressive movements in the United States and was active government policy in Germany. There, intervention was not promoted to weaken the property relations and promote popular democracy, but to undercut the burgeoning socialist movement that was a large part of the political turmoil of the period, including the United States. This movement was itself a consequence of the changed economic organization. The transition to oligopoly saw the development of extremely large firms concentrating in specific locations. As property cannot be concentrated without concentrating workers, workers too were brought together. And they organized. And many workers saw a different economic organization as the solution to their problems.

The period following the Civil War was one of the most tumultuous we have seen. Workers were organized and militant. Many were of a socialist or anarchist orientation and several union constitutions called for an end to capitalist property relations and the creation of a socialist society. Strikes were many, and many were violent. And how did democracy respond to the demands of those who were now the majority of the population. Workers were met by the courts which imprisoned and sometimes killed them, by police, National Guard units, and federal troops who clubbed and murdered them, by legislatures, state and federal who invoked the full weight of propertied democracy to bring them to heel. Newspaper publishers, university presidents, and preachers condemned them from their positions of authority. It is in this period that the "Cold War" began. It is most enlightening to read McCormick's *Chicago Tribune* or the *New York Times* following the Haymarket Affair of 1886 and see accounts that would apply almost verbatim to those same papers' reporting on the Soviet Union in the following century. The Cold War has always been about how the economy and accompanying political system are to be organized.

Eventually, just has had previously occurred in England, workers were brought under control, partly through the full force of the state but also, and I think primarily, through the control of unions by propertied interests and the watering down of the socialist parties until it became impossible to see a fundamental difference between such organizations and the more conventional political parties. Unions have achieved wondrous results within the constraints of capitalism—and we would not be enjoying most of the advantages we do without such organizations. But, if controlled by those who accept the prevailing property relations, they also serve as a conservatizing force, confining our ability to think of what is possible to what is possible within the propertied democracy we inhabit.

However, the turmoil of this period did require an erosion of the old non-interventionist program, and with the onset of the Great Depression of the 1930s, it was officially terminated. The increased government intervention of the 1930s, whether in the form of regulation, spending programs, monetary policies or social programs was not designed to change prevailing property relations, but to save them. Basically, government had to intervene in order to prevent capitalism from destroying itself. This was the whole point of Keynes's *General Theory*.

Given the nature of a capitalist economy, forces are always in motion that generate opposition to the prevailing state of affairs. On a fairly regular basis, we do see popular democratic movements developing. In the colonial world, we see any number of independence movements that always contain economic programs surrounding agrarian democracy—land to the tiller—and sometimes a quasi-socialism—all productive property in the hands of workers. These movements must be destroyed if at all possible, contained and controlled if not—just as they have been in the advanced democracies. Since the end of the Second World War, the US government has been forced to engage itself in any number of military and other operations in these countries—those who count such things put the number at over 80—in order to maintain the modern property relations that have become increasingly globalized and interconnected. And the US government is no exception in this regard.

I particularly like the 1954 episode in Guatamala, as it well illustrates the issues at hand and takes us back to John Locke.

Jacobo Arbens Guzman was elected president in 1951 with the largest majority in Guatemalan history. Arbenz was a nationalist of a democratic persuasion who, among other programs such as instituting the first income tax in that country, undertook land reform. Expropriating, with compensation, acreage from large estates that was not being farmed, these lands were given to peasants who had previously been expropriated by large landowners. In other words, large landowners had violated both Lockean strictures on the acquisition of property, and the Arbenz government was well within its Lockean rights in seizing that land. Among these landowners was the United Fruit Co., a Rockefeller operation. Officials of the company didn't care for this action. Not surprisingly, the US government, in alliance with Guatamalan landlords and the military, organized a coup that ousted Arbenz and installed Castillo Armas as dictator who then abolished taxes on interest and dividends paid to foreign investors, eliminated the secret ballot, jailed thousands of critics, and returned the lands of the United Fruit Co. More significantly, a thirty-year war was unleashed against the peasantry, mainly Mayan Indians, which left at least 100,000, and possibly 200,000, dead. The coup was organized in Washington, and most of those who planned it were affiliated with Mr. Rockefeller and United Fruit, in particular, the director of the CIA, Allan Dulles, and his brother, John Foster who was then Secretary of State. The US public was led to provide tacit support for this action through a series of propaganda pieces that the major newspapers, magazines, and television and radio networks were all too happy to publicize as "all the news that's fit to print." These articles, which stressed the communist threat to the United States posed by the Arbenz regime, were prepared under the direction of public relations specialist, Edward Bernays. Bernays not only had helped sell World War I to the US population under the slogan, "Make the World Safe for Democracy," he also helped get us hooked on cigarettes, pave over our landscapes, and drink beer as the "beverage of moderation." Consider the following quote from Bernays:

> The conscious and intelligent manipulation of the organized habits and opinions of the masses is an important element in democratic society. Those who manipulate this unseen mechanism of society constitute an invisible government which is the true ruling power of our country. In almost every act of our daily lives, whether in the sphere of politics of business, in our social conduct of our ethical thinking, we are dominated by the relatively small number of persons who understand the mental processes and social patterns of the masses. It is they who pull the wires which control the public mind.
>
> (*Propaganda*)

Now, much of the news we receive through the traditional media is nothing more than corporate or government public relations offerings masquerading as information. Indeed, a study published in the *Columbia Journalism Review* reports that over half the stories in the *Wall Street Journal*, one of the most respected papers in the United States, consists of press releases even while carrying the heading, "By a *Wall Street Journal* Staff Reporter." Whether selling cigarettes, beer, SUVs, toxic wastes, US presidents or war, the guardians of propertied democracy are always ready with the appropriate slogan.

In the United States we have witnessed similar popular movements. Challenges to the rule of large property occurred in the war of independence period. The late 1800s, the 1930s, and the 1960s witnessed other challenges. We may now be in the very early stages of another such development. The response of the guardians of property to the popular movements of the 1960s and early 1970s is of interest.

In 1974, directors of the Trilateral Commission, an organization begun and funded by David Rockefeller, notable propertied member of society, organized a study on "The Crisis of Democracy," and published a most important work a year later where various authorities analyzed the problems of propertied democracies when faced with popular opposition. I'm not a conspiracy theorist, but do accept that people with the same or similar objective interests do organize to promote those interests when they are understood. If we examine the membership list of this organization, and members are drawn from around the world, we get a rough idea as to who directs our thinking and actions when confronting matters of public concern. Included are businessmen in major manufacturing, banking, media, and transportation firms, educators and presidents from major universities, prominent politicians, civil rights leaders, and, yes, union leaders.

- Zbigniew Brzezinski, Director of the Commission
- I.W. Abel, President United Steelworkers
- John Anderson, House of Representative
- Ernest Arbuckle, Chairman, Wells Fargo
- Paul Austin, Chairman, Coca-Cola
- George Ball, then serving as chair of Lehman Brothers
- Lucy Wilson Benson, Former President, League of Women Voters
- Harold Brown, President, Cal Tech
- James Carter, Future US President
- William Coleman, US Secretary of Transportation
- Hedley Donovan, Editor-in-Chief, Time, Inc.
- Thomas Hughes, Chairman, Carnegie Endowment for International Peace
- J.K. Jamieson, Chairman, Exxon
- Lane Kirkland, Secretary-Treasurer, AFL-CIO
- Paul McCracken, Professor of Economics, University of Michigan
- Walter Mondale, US Senate
- Henry Owen, Director, The Brookings Institutions
- David Packard, Chairman, Hewlett-Packard
- Elliot Richardson, then Ambassador to England
- Carl Rowan, columnist
- Arthur Taylor, President, CBS
- Leonard Woodcock, President, United Auto Workers.

According to Harvard political scientist Samuel Huntington who authored the report on the situation in the United States, the 1960s witnessed a major revival of the democratic spirit. Indicative of this revival was a *low* voter turnout (though increased participation in political campaigns); various protest movements, in particular those associated with the war in Southeast Asia and Civil Rights; an expansion of militant unionism and democratic movements within unions that challenged the authority of existing conservative control; a reassertion of equality in social, political, and economic life.

I quote:

> The vitality of democracy in the United States in the 1960's produced a substantial increase in governmental activity and a substantial decrease in governmental authority.
>
> The excess of the democratic surge of the 1960's was a general challenge to existing systems of authority, public and private. People no longer felt the same compulsion to obey those whom they had previously considered superior to themselves.
>
> Truman had been able to govern the country with the cooperation of a relatively small number of Wall Street lawyers and bankers. By the mid-1960's this was no longer possible.
>
> Effective operation of a democratic political system usually requires some measure of apathy and noninvolvement on the part of some individuals and groups. Less marginality on the part of some groups needs to be replaced by more self-restraint on the part of all groups.

The United States was suffering an "excess of democracy" in which the authority of propertied interests had been undermined. It was now necessary to restore that authority. The Commission proposed that conservative union leaders would have to bring their members under control; proper, legitimate civil rights leadership had to be instituted and the more militant sections of that and other movements that had challenged dominant authority had to be marginalized. The population, in general, must have their faith in conventional authority re-established and this could be best done under an appeal to national interests.

And this is what is meant by democracy from the perspective of large property owners and their guardians. It is governance within the constraints of the property relations extant and with the acquiescence of those governed.

I ask, over the last forty years, have we seen such a program put into effect? And have we also seen something of a return to the notion that the economy is best left to its own workings and that government should assume a more-or-less non-interventionist role? We shall not return to the glory days of laissez-faire, to be sure, but the recent emphasis on markets, on the forces of competition, on inefficient government and the need for privatization certainly moves us in that direction.

And where are we now?

Over the last 40 years, we have observed remarkable changes in the world we have made. As the weakened interventionary program has permeated more and more of the world economy—and it is a world economy—we have witnessed the following:

- A reduction in the rates of economic growth; this has been most pronounced in the poorer and middling countries.

- In all but the very wealthiest countries, progress in life expectancy has been reduced—in many of the poorest nations, life expectancy has been falling absolutely.
- Progress in infant and child mortality has been reduced—in many of the poorest areas, mortality has actually increased. According to the United Nations, we now kill 35,000 children a day due to starvation and malnutrition, some of these in the United States.
- Progress in education and literacy has slowed with the reductions in rates of growth in public spending on education among all country groups.
- The distribution of income and wealth has become more unequal in all country groups. Absolute poverty has increased.
- Environmental destruction has intensified.

To some extent, and it would be difficult if not impossible to specify how much, the negative consequences for the majority of the world's population have been the result of various economic policies mandated by large financial organizations—in particular the IMF and the World Bank. Financial interests now rule and the subsistence requirements of the majority are of little interest.

- Trade liberalization: in poorer countries, this leads to layoffs in non-agricultural sectors and the displacement of the rural poor. In Mexico, for example, NAFTA has opened the gates to imported agricultural products from the United States, forcing farmers off the land as they can't compete with Cargill and Archer Daniels—not exactly your typical small property holder. And we then concern ourselves with illegal migration from Mexico consisting of displaced farmers looking for an alternative source of income.
- Privatization: governments are typically required by the IMF to sell off government-owned enterprises to private, often foreign, investors—this usually results in layoffs and pay reductions.
- Reductions in government spending, in particular spending on social services to the poor.
- Imposition of user fees for education, health care, drinking water. For the very poor, even small charges may result in the denial of such services.
- Higher interest rates, at least up to "the great recession": to attract foreign investment (that is, reward coupon clippers and speculators). Higher rates of interest dampen internal economic activity, exacerbating poverty. (All from Joseph Stiglitz, *London Observer* interview, October 10, 2001)

We must remember that over the last two decades (and more), the economic program instituted was said to be constructed to promote greater democracy, greater freedom. One must ask, whose democracy, whose freedom?

Many of us are concerned about the world we have made. Materially, we may be comfortable—some are more than comfortable and, finding themselves with incomes greater than that which they can rationally spend, they engage in an orgy of conspicuous consumption that can only be labeled socially obscene. But for those who are merely comfortable and for whom individualism has not wholly distorted their intelligence—that is, for those who still retain what is often called a social conscience—a certain disquiet prevails: we have not fully fallen prey to the lie of silent assertion. We see an increase in alienation, an increase in socially reprehensible behavior, in political apathy, in disregard for the well-being of others, in just plain meanness. We see a collapse of values held to be traditional, a disintegration of institutions thought to be venerable—including, perhaps most importantly, the family structure that was itself created by capitalism. We also see a growth in poverty on a world scale. And we see a growth in conflict between and within nations. And we ask, at what social price has limited material progress come?

We also see economic stagnation. The United States has joined most of the rest of the world in the ongoing recession that has seen high unemployment in Europe (Germany being the exception), a no-growth economy in Japan, and worsening economic conditions for a large part of the world's population. I don't know what will come of this. But, if the recession is long enough and deep enough, perhaps it will cause enough of us to start thinking once again about the relationship between the property relations that lie at the foundation of our society, and the democracy that has been fashioned to serve those relations. Old questions will once again find their way to the table: why don't we have a right to employment; why don't we have a right to subsistence?

Let's just suppose such a demand were actually implemented? Wouldn't guaranteed employment at a wage sufficient to raise a family comfortably ease two social issues now facing us—racism and the collapse of the family structure? Martin Luther King certainly thought so. I quote him on the relationship between economic relations and racism:

> As long as labor was cheapened by the involuntary servitude of the black man, the freedom of white labor, especially in the South, was little more than a myth. It was free only to bargain from the depressed base imposed by slavery upon the whole of the labor market. Nor did this derivative bondage end when formal slavery gave way to the de-facto slavery of discrimination. To this day the white poor also suffer deprivation and the humiliation of poverty if not of color. They are chained by the weight of discrimination, though its badge of degradation does not mark them. It corrupts their lives, frustrates their opportunities and withers their education. In one sense it is

> more evil for them, because it has confused so many by prejudice that they have supported their own oppressors.
>
> Black and white, we will *all* be harmed unless something grand and imaginative is done. The unemployed, poverty-stricken white man must be made to realize that he is in the very same boat with the Negro. Together, they could exert massive pressure on the government to get jobs for all. Together they could form a grand alliance. Together, they could merge all people for the good of all.

Technically, full employment at a reasonable wage *is* possible. But such a program calls into question the property rights that constrain our thinking, our actions. And the unity of labor that might result is just outright dangerous. It is far better to keep workers anxious, keep workers divided, keep workers in their proper place.

It is fairly clear that we are going through yet another transition in our social evolution. Yet we cannot understand it nor, obviously, see what outcomes await us. We must think things afresh and entertain new modes of thinking.

What kind of a world do we want? After all, we do make ourselves, though not necessarily as we would like. Is it possible to build a world, not of perfection—whatever that would possibly mean—but of simple human decency, one fit for people to become fully human? And what would such a world look like? I assure you I don't know. Like the rest of you, my powers of rational thought and imagination are too limited by convention, by what is deemed normal and natural.

But, I think I know some features of such a world. It must be free of poverty, of war, of racism, of sexism, of all ideology that promotes inequality among peoples. It must be one of justice where all members of a community share decision-making, and all rights and responsibilities are held equally. It must be one where the individual and the social good are not opposed but brought into conciliation. And it must be one where our place within and relationship to nature is much better understood. We are, after all, animals, though of a most peculiar variety. We must learn to tread lightly. And we must learn to once again appreciate beauty. While we are peculiar, we are also remarkable. We are the animal that has produced Bach; but we are also the animal that kills millions in war and allows its children to starve when food is readily available.

It must be, in other words, a world of equality. And equality is not to be understood in some arithmetic sense but is itself to be socially constructed and socially reinforced—and that is a job for future generations.

We cannot hope to live in such a world, it's probably too much to even envision such a world—we are so far removed from egalitarian relations and structures within which we originally evolved, so accustomed to inequality as natural, that it's difficult, if not impossible, to understand what equality means. The best we can do is to work toward such a world.

And this I do know: if we don't work toward this objective, then we accept our current world by default. And if we're content with such a world, then fine. But if we are not, and from my vantage point I do not see how we can be, then we must work for change. And change is either toward equality or toward greater inequality.

Can we do this? Do we have the will, the intelligence, the courage to work toward a world of simple decency? Or have we been made too selfish, too mean, to cynical to even try? Do we fear the loss of respectability? While the raw material out of which a new world can be made doesn't look promising, I remain optimistic that enough decency remains in enough of us. And if we do try, can we create such a world within the confines of existing property relations? I cannot see how. True, capitalism is an amazingly flexible and resilient organization. And the democracy it has created is responsive to pressure from the underlying population—if sufficiently well organized and sufficiently strident in its demands. But, thus far, democracy has only yielded within the constraints of the property relations it was designed to maintain. And this is what we should expect. Why should we believe we can solve the problems raised by a certain property relationship within the constraints of that relationship? Why should we believe that the privileged members of society will voluntarily give up their privileges? Why should we believe that the state—all those instruments through which the significant property owners enforce the rule of property—should suddenly favor the interests of the majority of the population?

So then what is democracy from the objective perspective of the majority of the world's population, the useful members of society as Veblen termed them—those who labor. It has nothing to do with forms of government, voting rules, and other facets of what we call democracy. It is the struggle for justice, for equality. It is the struggle of the slave Spartacus, of the Essene Jews, of the Priest John Ball, of Harriet Tubman, Mother Jones, Eugene Debs, Vladimir Lenin, and yes, Old John Brown—the struggle against oppression, exploitation, and tyranny, including the ideological tyranny that blinds us to our reality and to our possibilities. And it is this struggle that must sustain us. I conclude with a quote from Lewis Henry Morgan as he summed up the main lessons of his (1877) monumental work, *Ancient Society*:

> Since the advent of civilization, the outgrowth of property has been so immense and its management so intelligent in the interests of its owners that it has become, on the part of the people, an unmanageable power. The human mind stands bewildered in the presence of its own creation. The time will come, nevertheless, when human intelligence will rise to the mastery over property.... A mere property career is not the final destiny of mankind. The dissolution of society bids fair to become the termination of a career of which property is the end

> and aim, because such a career contains the elements of self-destruction. Democracy in government, brotherhood in society, equality in rights and privileges foreshadow the next higher plane of society to which experience, intelligence and knowledge are steadily tending. It will be a revival, in a higher form, of the liberty, equality, and fraternity of [ancient society].

Thank you.

Note

1 A "farewell lecture" delivered at the seminar celebrating John F. Henry's retirement, University of Missouri-Kansas City, April 25, 2014. This is a revised version of the John C. Livingston Annual Faculty Lecture, California State University, Sacramento, November 1, 2001.

14 A conversation with John F. Henry[1]

Tae-Hee Jo and Frederic S. Lee

Education and career

JO *You attended Muhlenberg College in Pennsylvania in early to mid-1960s. What did you study at Muhlenberg and how was your college life?*

HENRY Well, Muhlenberg is a liberal arts college, and hence, even though students select a major, they are obligated to take coursework in a whole range of disciplines and sub-disciplines. And if I remember correctly, I do know that in the first year, I was—we were all—severely constrained in that we all had to take a course in the natural sciences in both semesters and we only had three to choose from. We didn't have the broad, general education, natural sciences courses that you find today. It was either biology, physics, or chemistry—that was it. And we had to take two semesters of history, two semesters of philosophy, two semesters of math, two semesters of etc. And, it was only at some point in the second year—I think it was the second semester of the second year—where we were permitted to choose a major. So we had this very broad-based educational program. And even when we were settled on a major, we still had to take courses in other disciplines. In fact, I think I had more courses in literature than I had in economics, even though I had selected economics as my major, by default. I was slated to take over my father's business, so had there been a business major, I most likely would have majored in business. At that time, like so many others, I thought that economics and business were so closely related that that was as good as I could do in terms of a business program. What in retrospect is discovered is that that kind of educational program is very useful for later development. If you have a narrow focus from the get-go, then you actually retain a narrow focus in perpetuity, right? Well, as you both know that in my work I bring in history, and I bring in sociology, and I bring in political science. And I bring in the natural sciences, for that matter. I mean, in the first book [*The Making of Neoclassical Economics*, 1990], the model for my examination of the development of the neoclassical theory was J. D. Bernal's *Science in History*, where he lays out this model of scientific progress—or actually processes is a better term—and that was the foundation for my model for the examination of neoclassical theory. So, again in retrospect, I would suggest this is the way all students should be prepared for whatever comes down the road in their respective lives, because they will find exposure to all of these areas most useful.

LEE *As to your college life, was there Scotch involved?*

HENRY No Scotch! Actually, you know, the first time I remember having a drink—I was pretty much a puritanical type—I waited until I was twenty-one, and a bunch of us organized an eight-handed cribbage game, which is impossible, but we did it nevertheless, and I went into my parents' basement and brought to campus a bottle of bourbon. As none of us were big drinkers, it did not take much to turn that into a lively cribbage match. But, the life was good. I lived in residence for four years, had good roommates, one in particular with whom I'm still in touch. There was a lot of social activity at the college. We had two theater groups, there were all sorts of organizations that one could belong to and participate in. So it was good, I had no major complaints. Probably a lot of minor ones, but no major ones.

JO *You did your graduate study at McGill University. Did you go to McGill because of Professor Athanasios Asimakopulos?*

HENRY No. I did not. When I was searching for graduate programs, I went to my advisor in the economics department, a fellow by the name of John Voyatzis—another Greek, actually—and I was going down the list of potential graduate programs—Penn, Princeton, Cornell—and he was the one who mentioned McGill. And I'm not so sure that I knew McGill existed at that point, but I did some searching. This was spring 1965, and I wasn't trying to evade the draft, but I was getting very much concerned about what was going in Vietnam and also in the Civil Rights Movement. And I actually decided that it would be good to stand outside the United States for a period of time, to look at it from outside, and perhaps gain a different perspective on things, and so I applied to both Toronto and McGill, was accepted at both, and decided to go to Montreal, for reasons that I cannot remember, perhaps because it seemed to be the more interesting city, more cosmopolitan. And that was in fact, a good decision. Independent of the university, living in Montreal for five years was a great exposure for me, to another side of life. I came from a small town, went to a small liberal arts college in a small city, and then you move to a very vibrant, cosmopolitan city, with a university with an international student body. So, this was a tremendous educational experience, independent of any economics I might have learned. So it wasn't because of Tom Asimakopulos; it was an accident.

JO *What is Asimakopulos's most important contribution to Post Keynesian economics?*

HENRY Two: I thought about this. The 1975 article on Kalecki's theory of income distribution that is still held up as a model for studying Kalecki in a critical fashion, and then his last book, *Keynes's General Theory and Accumulation*, and that was published shortly before his death.

LEE *The question is: Was he a Post Keynesian in the mid-1960s?*

HENRY No. I don't think so. When I arrived (he was on leave the first year I was there) and I didn't work with him until my second year. I didn't formally work with him much. I sat through two courses that he taught. He taught the honors micro, and for honors students, this was the first economics course that they took. They didn't bother with principles, they just went right to the, what we call, intermediate micro. And he had a reputation associated with that course. And then I sat through a course he taught on growth theory that was skewed toward the Cambridge controversy. But if you asked—he told me one time—he did not understand Joan Robinson, and he studied under her at Cambridge, and he was in the same class as Geoffrey Harcourt, and Amartya Sen—by the way that was, apparently, a sterling class—but he didn't really understand Joan Robinson until he spent that year at MIT—that was my first year at McGill—working with Robert Solow. Working with Solow, everything that Robinson complained about was made clear as a bell. That's when he started actually to become, although he would deny that label, "Post Keynesian." He just wanted to be known as an economist. But that's when he started to move toward what most people would consider to be a Post Keynesian economist, with an emphasis on Kalecki. Depending upon which Post Keynesian you talked to, is Kalecki really a Post Keynesian, or is Keynes really a Keynesian, or all that sort of stuff, but I don't pay attention to those controversies.

JO *Obviously, this was the 1960s, which was before the beginning of the Post Keynesian economics. But we know that Asimakopulos was a dissenting economist. I found an interesting quote from Geoff Harcourt.*

> Athanasios (Tom) Asimakopulos declined the invitation of the editors to contribute an essay on his contributions to the first edition [of *A Biographical Dictionary of Dissenting Economists*, 1992] because *he did not consider himself to be a dissenter*. He argued that his contributions continued the approach of economists such as Keynes, Kalecki and Joan Robinson who really understood what the correct traditions of our discipline were.
>
> (Harcourt 2000, 7, emphasis added)

This is an interesting position given that economics is (and was) sharply divided into mainstream and heterodox economics. Was Asimakopulos hostile to mainstream economics? How did he treat mainstream economics when he was teaching and researching?

HENRY Hostile is too strong a word. As I said before, he taught the honors micro course, but he taught it critically. Students got a very good training program in conventional micro from him, but they never came out of that course believing that it was true, at least in all respects. And if you look at the micro textbook he wrote *Introduction to Economic Theory: Microeconomics*, 1978, it's largely orthodox.

LEE *Yes! I tested this, because by the time I looked at it, he was supposed to be a Post Keynesian economist, and his micro was neoclassical. So I just opened it, checked it out, closed it and never looked at it again.*

HENRY Yes, except it was sufficiently critical, I remember a bookseller—I can't remember the publisher [Oxford University Press]—anyway, the salesman for that publishing company was pushing that book at the time, he had just come to Sacramento from Berkeley, and he approached this Berkeley micro-theorist with this possible text, and explained what was different about it. And what was different about it was there was criticism at various points, there was nibbling at the edges, but just nibbling at the edges, nothing all that substantial. And the Berkeley professor said "Jesus! First of all macro is in disarray, and now somebody comes along and wants to do the same thing for micro." If you actually read the book, you would say this isn't all that unorthodox, it's not a heterodox micro text at all, it's a neoclassical text, and again with nibbling at the edges and criticism throughout. So, in a sense, you can argue that Tom was a bit of a schizophrenic economist, in that he continued to teach neoclassical theory, but not publish in conventional economics except for that textbook. He continued to teach that micro course, and at the same time he was at the graduate level pushing the Cambridge England side of the controversy: introducing us to Kalecki, introducing us to Keynes, introducing us to Joan Robinson. We read, as graduate students, at least those who affiliated themselves with Tom, we read all of the Cambridge stuff. And I remember being part of a group that sat down with Sraffa's *Production of Commodities by Means of Commodities*, trying to understand the thing. So in a sense, you could say he was bifurcated. But he generally kept his neoclassical leg quite separated from his—whatever you want to call him—Post Keynesian or Kaleckian leg. They never converged as far as I could tell. I never thought of this as strange when I was there. In fact, there is something of an interesting story, in that I was trained in neoclassical micro at both the undergraduate and graduate level, but I was also trained at the graduate level in the anti-neoclassical theoretical apparatus. And at some point, I was still a graduate student—it might have been my last year—it dawned on me that once you have the heterodox or anti-neoclassical arguments pretty well under your belt, you don't understand all facets of them, but once you've imbibed those, then neoclassical economics is absolutely invalid. It's incoherent, it's wrong, it's in error, however you wish to describe it. In retrospect, it's always something of a mystery as to how he was able to maintain this great divide, and not create some kind of psychosis in his own thinking.

LEE *This could be made the same claim with Joan Robinson, who never fully rejected her neoclassical micro.*

HENRY And it's true, as all three of us have talked about from time to time, when you look at a significant portion of the Institutionalist or Marxist or Post Keynesian, or whatever theory, or just go through the JPKE [*Journal of Post Keynesian Economics*] for example, you see neoclassicism rearing its ugly head on a fairly regular basis.

JO *Tell us about Professor "Tom" Asimakopulos as a person.*

HENRY A couple of years ago at the Post Keynesian conference, I organized a session. Fred Lee gave a presentation on Eichner and Geoffrey Harcourt gave a presentation on Asimakopulos, and then I was a discussant. And so I had to think about what it was I wanted to say. I wasn't really going to discuss the papers; I was just going to add some commentary. And I made a list of what made Tom a really good teacher. And intellectual honesty was right at the top. The ability and willingness to allow students to tread their own ground, as long as it was reasonably defended, even though it might differ from his theoretical position. But he wasn't going to force his theoretical position or positions on the student. He was going to expose them to his thinking or his approach. He wasn't going to demand compliance with what he considered to be "proper" economics. Very helpful, very critical. McGill was still under the European system at the time, so we had tutors. When I went up for my PhD examination, I chose him to be my tutor for theory—a perfectly reasonable choice—and he really grilled me. But he forced me to then come to grips with those areas where I really didn't understand something, and I should have been able to understand it at that time. And that made me a much more critical thinker than I otherwise would have been. At the personal level, he had very strong opinions on any number of things, but, those opinions were his, and if you disagreed with him, and disagreed with a sufficient supporting defense, you could have a very good conversation. And he certainly wasn't a George Stigler who also had very strong opinions but would browbeat people into submission. That wasn't Tom's way at all. And we socialized a bit. In my last year, I was hired as a sectional lecturer to take over this very large European Economic History course. I had been the head TA in European Economic History. The instructor, Harold Wright, who was a student of Clapham at Cambridge—the "empty boxes" Clapham—went on a sabbatical and they hired me to take over the course. I was sort of a semi-faculty member; I had passed my orals and was writing my first dissertation. Then it was proper to socialize at that level. I remember going to the movies with my former wife along with Tom and his wife, Marika. We were invited to their house for dinner, a very pleasant relationship.

JO *You spent a year at Staffordshire University, UK, from 1992 to 1993. Tell us about the time at Staffordshire.*

HENRY A good year, a very good year. I had several good colleagues, not necessarily heterodox. Peter Reynolds was there, and he was the resident Post Keynesian. Paul Downward had just started his academic career, the teaching portion of his academic career. And Paul and I became very good friends; I was a very good friend with Peter; I was a very good friend with the chair of the department at the time, Nick Adnett. Nick is a very interesting fellow, because he was straight arrow neoclassical, but he used it in very clever ways, and he was very critical of the existing capitalist order, and generally speaking he associated neoclassicism as something of an apology for capitalism. He used neoclassical theory as a criticism of capitalism. He comes from a labor background; he came from a union background, a British Baptist background and the British Baptist background is quite different than it is over here: they tended in the old days to be very radical in their orientation. Actually, it was Nick the person with whom Charlene and I most closely associated in our social lives, and we spent a lot of time with Nick and his wife Liz, but also with Peter and also with Paul. It was a very pleasant environment. I don't think I came across anybody who was overtly hostile to me, or where I was hostile to them. Most were neoclassical economists, but people got along.

LEE *John Bridges?*

HENRY Well, there was John Bridges, thank you for reminding me Fred. John was a little different. But, he invited us to his house three times when we were there. John was difficult; this is somebody who never published, so you wouldn't have any knowledge of the fellow. He was an econometrician. Married a woman from the States. Very much of an iron-clad, fuddy-duddy, conservative, British Empire, kind of person. At the same time, I got along with him. One of the courses I taught was the micro course. I taught half of it, the other half was taught by this Greek fellow whose name escapes me. And John one time was very much concerned as to whether I was teaching a proper micro course or not. I remember he approached me in the hallway and asked as to how I dealt with a particular issue. As the micro course I had been teaching for a very long time was more or less until the very last day, very last lecture, a straight arrow neoclassical course, my response must have satisfied him. He was afraid that given what else I was teaching, what else I was known for, I was inserting Marx or Veblen into the neoclassical micro course, or whatever. But I got along with him OK, but he's not one I would want to spend a lot of time with. And you had to put up with his "Rah-Rah-British-Empire." He was, in that sense, the English model of a proper Englishman of 1913.

And I don't think World War I really affected his outlook in any way. He was very proud of the victory over Argentina in the battle for the Falklands, that the British Empire still lives.

LEE *Glad your experience was better than mine, he threatened to fire me.*

HENRY Well, what was he going to do? I was there on an exchange. And he wasn't the chair when I was there, that's the difference.

Teaching at CSU and UMKC

JO *You spent most of your career at California State University—Sacramento. How was the scholarly environment there? Were you happy at Sacramento?*

HENRY I'll answer your last question first; generally speaking, yeah, I was, once I got accustomed to it. When I arrived at Sacramento, I was really taken aback, I was really surprised. Nobody on the faculty had heard of the Cambridge controversy, for example. Of course, I was steeped in it. And this was the big controversy of the period. But then I discovered that most US economists as well paid no attention to this. So I was surprised by what I considered to be the lack of interest in what was going on in the world of economic theory, number one. I was also surprised and taken aback by the students. Because I had gone to this liberal arts college, and it wasn't a top ranked liberal arts college—a Swarthmore, an Amherst, or a Williams or anything of that sort—but it was in the second category, toward the top of the second category. So, the student population of Muhlenberg was very homogeneous. The student population of McGill was also very homogeneous, and very good. When I got to CSU-Sacramento, I was confronted for the first time with a very heterogeneous student population, and I didn't know how to deal with it. Because, to whom do you teach? Do you teach to the top end, to the great middle, to the bottom end? And it took me a while to accommodate to that heterogeneity. But after a period of time, after a couple of years, I began to appreciate it. And I had adjusted my own teaching program to do my best to that type of environment, because most of those students were working and were going to school, and therefore they didn't really have the time we had at Muhlenberg or McGill to put into their academic work. And you also discovered that many of them were more interesting than the students I was associated with in my undergraduate and graduate career because they had different life experiences than we were accustomed to. As far as the faculty was concerned, once I got over my initial—"shock" is too strong a word—but, in any case, my initial reaction to the inability to understand anything I was talking about when I was talking about the Cambridge controversy, I began understanding. It was a very heterogeneous faculty: Marc Tool was there, Joe Furey was there—he was a Marxist. I remember having a discussion with several of the faculty members about some facet of the Cambridge controversy, and Furey was the one who said "well, that's Ricardo." He was the first person—the only person—who picked up on anything I had to say regarding these debates. So, in the first period, there was a pretty good experience after my initial "shock." At the same time, there were some really bad faculty members in the department, I must say. They mainly came out of the University of Southern California.

LEE *Well that seems appropriate.*

HENRY Yeah, right, exactly. They might have a pretty good football team on occasion, but they were not producing well trained economists, even conventional economists. I'm not sure what John Elliot was doing, because I never ran into any of Elliot's students. So I'm not sure. He was marginalized, obviously, at USC, without question; he was a Marxist.

LEE *A social economist, as well.*

HENRY That's right.

LEE *Marc Tool didn't know anything about capital controversies?*

HENRY Not at the time.

LEE *He was already well established as an Institutionalist.*

HENRY Correct. Well, if you go to an Institutionalist gathering, and you bring up any of this stuff, very few people are conversant with it.

LEE *Is that because Institutional economics they got was largely atheoretical?*

HENRY Well, they would, of course, claim that it is theoretical. But, by this time, Ayres had dominated. And Marc was a student of John Fagg Foster, who was an Aryesian. There's an interesting story here. I had never been exposed to Institutionalism. I had read, for some reason, some Veblen in graduate school, not because it was required, but I heard of the guy in some way, and decided to go to the library and pick up something, probably *The Theory of the Leisure Class.* So I went to Tool, and I said, "Marc, I'd like a reading list to introduce me to Institutionalist theory." The first item on the reading list: John Dewey's, "Theory of Value." I read the first page and said "I don't understand a damn thing." Put it aside. Couple of weeks later, pulled it back out; I still don't understand a thing. I never did finish it; I don't think I got through two pages of that essay. And that was the first item. Well, that is the pragmatist's approach to Institutionalism. Now, my Marxist colleague was the guy who really introduced me to Veblen. And Marxists are divided on Veblen. And all you have to do is go to Baran and Sweezy. Sweezy loved Veblen; Baran hated the guy. Joe Furey was very much a fan of Veblen. He used to teach US economic history. The core text was Veblen's *Absentee Ownership,* because this was the best account of oligopoly capitalism in the United States. We can debate that, but that was Joe's position. That's when I really started to take Veblen seriously. And then, I was exposed to the *Theory of Business Enterprise,* and the essays "Between Bolshevism and War," "Bolshevism is a Menace: to Whom?" Marc was on the Ayresian side of the Institutionalist divide; we got along very well, socialized a great deal. It took me a long time to understand where he was coming from, because I didn't understand much about Institutionalism in general. When he would write papers, he would give them to me for commentary, and I would critique his papers. We got along quite well. If you talk to Randy Wray, who went through courses with Marc—who used to teach comparative economics systems, a course in Institutionalism, those were his main areas—Randy would say he was a great lecturer. He was just a very, very good lecturer.

LEE *So, around 1985, 1986, I go to a Post Keynesian conference luncheon, and I'm sitting there and this guy sits down next to me. Didn't have much to say until I mentioned "Industrial Workers of the World," so John Henry pipes up, and we have a conversation which lasted to this day. The question is by 1985 you felt that you were engaged with the Institutionalist community to go to these dinners?*

HENRY I was sufficiently engaged, but always selective with whom I would spend my time. I get along with most everybody, except for Fred. And I get along with most Institutionalists, but when I know what their theoretical position is, or political position, I will not confront them, I will not engage, because I don't think it goes anywhere. Now, Fred is different. He will try to convince everybody that the IWW is the greatest thing since sliced bread. I save my confrontation for the outside world, to a large extent. I've been on any number of picket lines; I've picked fights with people at the larger political level, but generally try to get along with individuals in the academic community. Now, I don't go to neoclassical gatherings, but I do go to Institutionalist gatherings because there is a segment of Institutionalism which I think is valuable, with whom I can talk. Or social economists, for that manner. I think a lot of them are very weak, and don't have much to say, but others do have much to say. John Davis' book on the individual [*The Theory of Individual in Economics*, 2003] is a really good book that people ought to read.

JO *The heterodox economics tradition at the CSU-Sacramento has gone. What happened?*

HENRY Death, retirement, and the lack of hiring heterodox replacements. We went through a long period where the California budget found it difficult to replace retired or deceased individuals. When I arrived, we had a department of maybe twenty-one, twenty-two full-time faculty. After a long period of decline, we finally underwent a great hiring splurge in the early 2000s. The first round of hiring was the year before I spent my first year at UMKC, when I took a leave of absence from CSUS, roughly ten years ago. We hired three. The next year, when I was here at UMKC, we hired another four or five. The next year, we hired another four or five. We hired eleven people in three years. Now, Henry pleaded with his colleagues to at least bring one non-neoclassical economist into the department. We did in fact interview several, but none were hired. So we had eleven neoclassical economists hired. I was the only non-neoclassical economist left. Now, there was one experimental economist, who was a German, who was actually interesting, with whom I could talk. He's a member of AFEE, subscribes to JEI [*Journal of Economic Issues*]. He was interesting. The others were perfectly nice, and I got along with them, but they were straight arrow. So, Henry looks around, and says "there's nobody to talk with." Seriously, I could talk with the experimental economist, but not about the stuff I wanted to talk about. Tool's gone, Joe Furey's gone, a couple of others with whom I had good working relationships were gone. That's when I decided to pack up my bags and spend the rest of my academic life in a more congenial environment.

JO *That's the reason you moved to UMKC.*

HENRY That was the push. And the pull was, of course, the department here [UMKC]. I have two former students who are faculty in the department, Stephanie Kelton and Randy Wray; Fred was here. I don't know if that's a pull or not, but at least he was here. And I knew Sturgeon from AFEE and AFIT meetings; I knew Bob Brazelton, partly by reputation because of his work on [Leon H.] Keyserling. It was obviously going to be a much more congenial place. The first year was the testing environment. I took a leave of absence, but I made no commitment to UMKC, and after that year I decided this would be a good thing to do.

LEE *So obviously I didn't do anything too bad.*

HENRY The first year, yes, you kept quiet and under the radar. And after I made the leap and couldn't go back, then the true Fred Lee came out of the closet.

JO *In the recent past, the heterodox economics program at the University of Notre Dame was dissolved. The UC-Riverside economics program is not heterodox any more. We also know about the attack on the heterodox tradition at the University of Western Sydney and many other places. It seems it will happen again and again anywhere in the world. The current situation we are facing is a matter of survival. What is your suggestion for the survival and, hopefully, reproduction of heterodox economics in academia?*

HENRY Let's go back a little before I try to approach that response. You mentioned Notre Dame, you mentioned Riverside, Western Sydney, Wisconsin, Columbia—we are going way back— Wisconsin, Columbia, Tennessee, Rutgers, the list goes on. And it has been going in that direction for a heck of a long time. We're at the tail end of this process of weeding out the undesirables, the troublemakers. The question is why, why won't they tolerate us? My former colleague Joe Furey had a pretty good answer. We go into the classroom and we pose questions and analysis that students then take to their other classes—orthodox classes—and the orthodox instructors can't deal with it. They can't deal with our questions, they can't deal with our analysis, and therefore, we're creating a problem for them. I think that is true. Hence, they don't want us around, because we upset their equilibrium, in a sense. Now, as to what to do about it, Fred and I have talked about this indeterminably. Everything we can possibly think of is largely wishful thinking. You could say you have to maintain the departments that continue the heterodox tradition, and in terms of cranking out PhD students, that's not very hopeful. And what's been going in Italy, attacking History of Thought, for example. History of Thought attracts non-conventional economists, and History of Thought produces very critical commentary on neoclassical economics. It can—I mean, not necessarily, but it can. And if you go through even the conventional *History of Political Economy*, the prestige journal of history of thought, there aren't that many articles that are fundamentally critical, but there are some. The *Journal of History of Economic Thought* is better and the Australian journal [*History of Economics Review*] is even better in that respect. So, one of the ways to attack heterodoxy is to attack History of Thought, and that was the Italian campaign. The English campaign is to eliminate History of Thought as one of the research areas that count. They don't necessarily go after Institutionalists or Marxists, proper, but they go after those areas where Institutionalists and Marxists and others can do work, and History of Thought is one of those areas. In addition to UMKC, there is also the University of Massachusetts-Amherst, and there is also the New School, but those programs have been—I won't say to a significant extent, but I will say to some extent—tainted by neoclassicism.

LEE *Should say they want to become more respectable.*

HENRY That's the greatest intellectual sin we can commit, to be respectable. That's correct, yes. The great hope is for UMKC. And if the administration doesn't support us, which it hasn't been, it may die.

JO *So you are quite pessimistic.*

HENRY Very pessimistic. I was one of the original pessimists. Do you remember back in 2008 a flurry of essays and email exchanges, etc.? With the financial collapse, a window has opened that we can move through. Well, Henry didn't think so, because Henry thought that there might be a slightly open window, but it's only a half an inch, and it's going to close very quickly. And that's exactly what happened. And as we know, nothing has affected the economics curriculum.

LEE *And how could it possibly affect it? To be sure, you have people in there for thirty years.*

HENRY Yes. And they aren't going away. A full professor of Chicago isn't going to say "I was wrong." Even if he might privately believe it. And I don't think he knows enough to know he's wrong. And what can they go to? If your theoretical position is demonstrably wrong, and that's all you have, you have nothing to fall back on. And that's why training at UMKC is important. We don't have any particular heterodox position that is emphasized. We have Institutionalists, we have Post Keynesians, we have Marxists; people are exposed to Sraffa, they are exposed to all sorts of different theoretical positions and they're exposed to conventional economics. It makes them much more critical in their thinking, and much more critical in their observations, and much more critical in their scholarship. And you're evidence of that.

JO *Am I?*

HENRY Yes, you are.

JO *Tell us your best experience at UMKC.*

HENRY I'll give you two. Living down that hall from Fred, and talking about equilibrium with Tae-Hee. How's that? The best experiences have been with students, actually. And I think that's true. If you talk to any reasonable faculty member she or he will give that as an answer. Students who think critically, who write, not just good papers, but interesting papers, and are willing to think outside the box. I remember our discussions; I was kidding a bit when I said living down the hall from Fred and having discussions about equilibrium with Tae-Hee. But I do remember those discussions, or at least enough of those discussions. I didn't know you [Tae-Hee] from Adam when I came here, because I had been back in Sacramento when you arrived. The first thing I knew about you was that you were just a decent fellow because you helped me move my books into my office. So we went out to the car and pulled out the boxes, and then we had these discussions surrounding various theoretical issues, in particular equilibrium, the notion of equilibrium, and my criticisms of equilibrium theory. And then your arguments surrounding meta-theory, combining the micro and the macro, so that we don't have a micro and a macro as distinct areas. If you are a good faculty member, you learn from students. Students presumably learn something from you, but you learn from students.

LEE *Let's just add that students have taken up more of John's time talking in his office than any other activity one can think of. It's not clear to me how he got anything done, whatsoever, in the five days he works here. Students just love him. I don't get any students like that. They don't come to my office, they go to John's office, and they talk forever. And they seem to come out smiling and brimming with enthusiasm, after a four-hour marathon on whatever.*

HENRY So what he's really saying is I'm long-winded.

LEE *Well, the students seemed to love it.*

JO *You have taught various economics courses over forty years. How do you teach a course in economics from a heterodox economic perspective?*

HENRY It depends on the course. As I've already said, when I teach the intermediate micro, it's basically a straight arrow course. Some criticisms along the way, not too many, because it takes a lot of time. It's difficult enough to get the students to understand the stuff. And you can't do much, or at least in my opinion, you can't do much criticism as you're trying to get them to understand it. But on the last day, if they pay attention, this is the day that I tell them "you're not responsible for this on the final exam, I don't want you to take notes, I just want you to think." And that's when I put everything together. I say, look, everything depends on this thing called the marginal product and diminishing returns. Now, let's talk about that.

LEE *Not to mention God at the same time?*

HENRY I put the marginal product and God on the same pedestal, and I say, if you critique the assumptions behind the marginal product and plastic capital—the big one, that's the one I emphasize—the whole thing collapses, there's nothing left. It's just like religion. If you critique the assumptions behind God, you are just left with the real world, as opposed to the neoclassical or the theological world. History of Thought is easy, because in a course in History of Thought, if taught properly, you have to cover a wide spectrum of theories. What I do, among other things, is to teach neoclassicism from other theoretical positions. So you're putting neoclassicism into one box, and then in a sense, all of the other, the heterodox stuff, in a different box. But then when you come to the other box, the heterodox box, then you show differences and similarities: Marxist, Institutionalist, Post Keynesian, whatever it is. So you are segregating neoclassical economics, that's important. And then, you have these other theoretical systems to deal with. You've already segregated them in a sense, but you want to differentiate. In other words, there is no single heterodox theory that runs counter to neoclassical economics. There are different theories—plural—and they have to be understood as theories in and of themselves. But there are similarities, there are differences, and there's overlap. Then, when I used to teach Economic History, again, that was easy, because really the only people who have anything to say are Institutionalists and Marxists. Post Keynesians don't have much to say in that respect. The neoclassical version of economic history, the cliometric, is largely balderdash. I used to teach European and US economic history. In the US economic history course, I would bring in the cliometric history, the neoclassical version, and what I was able to convince the good students—the thoughtful students—was that these guys aren't really writing history, they aren't dealing in history. They have the exactly the same problems they would deal with if it were 2014; they're just putting that problem back 200 years, and applying the exact same theory they would in 2014. So in the US course, there was a bit of the new economic history—the cliometric history. And then in the European course, what I would do was to use David Landes' *The Wealth and Poverty of Nations*, and then I would have another text that ran counter to Landes. Then I would have a series of readings, and then we would have topics, and the topics were different than that of a conventional text, a Landes-type text. And I would draw a lot on older economic historians, like Marc Bloch, for example, who had a lot more to say than most modern economic historians. So it was very easy to say, basically, what you wanted to say without getting mired in neoclassical stuff. Even in Landes (if you interpret Landes correctly), what you can come up with is the lesson of Landes' story: never let priests get in the way, hang 'em from the nearest lamppost, because religion screws up everything.

LEE *Well, that's good advice. You have to exercise that statement.*

HENRY And Landes to Institutionalists: Anne Mayhew, years ago when Landes' book came out, organized a session at one of the AFEE meetings and that's when I had my heart attack. So I was supposed to deal with Landes on the division of labor from an Institutionalist perspective, or at least from some heterodox perspective—a critical evaluation. She thought a great deal of Landes' book, and she teaches economic history, or she taught economic history at Tennessee, and she's a certified Institutionalist, though not of my type—though I get along with her very well—she's more or less an Ayresian.

JO *According to your long teaching experience, what would be the best way to liberate young students from the dogmatic and illusory mainstream theory?*

HENRY There's a short answer. Explain why conventional theory is wrong and fraudulent, with emphasis on fraudulent. And not just this. There are too many Institutionalists who say that to write good economics, you have to incorporate anthropology, political science, political theory, history, sociology, but they never specify what anthropology, what sociology, what political theory. Interview any Institutionalist; ask them, what's your opinion on neoclassical economics? "It's all wrong." What's wrong with sociology, what's wrong with anthropology? I can show you anthropology and sociology that is straight neoclassical; it's just that the terms have changed. Political science was invaded by rational-choice theory for two decades, and it's still there. So, to be critical, you have to understand, it's not just economics, it's the social sciences in general. And to some extent, though obviously to a much smaller extent, neoclassical theory has invaded natural science, when they apply natural sciences to society, or to the species—us. There is a neoliberal genetics out there, for example. So, you want to explain why you can't just say that it's wrong; you have to explain why it's wrong. But I also say why it's fraudulent. And you see, it's not just economics. And then you present alternatives, and you have to be able to convince them that these alternatives are closer to reality than conventional theory, whether it's sociology or economics. And, finally, you say "look out the window." In other words, "what the hell is really going on out there?" Now granted, there's that problem, and we all know, to really understand what's going on out there, you have to have a theoretical perspective that allows you to do that. So there's this relationship between theory and reality. I don't pay too much attention to that; I say "look, is inequality growing?" Everybody knows that; why? OK, here's this explanation, it's wrong, it's fraudulent. Here's this explanation. Which is closer to what we observe when we look out the window?

Scholarship

JO *Let us go back to your time at McGill. Why did you choose* "John Bates Clark and the Origins of Neoclassical Economics" *as your dissertation topic?*

HENRY My first dissertation, which I tore up—well, didn't complete—was a quantitative analysis of the prairie wheat economy during World War I. I had an interesting thesis, actually. The standard argument was that the Canadian prairies had really bad weather that just so happened to coincide with World War I. So, I looked, I found that to be a little strange. You can understand one year of bad weather, maybe even two, but the whole war? So I looked at data, and I actually talked with people who understood the relationship between rainfall, sunshine, and dry farming, because there was no irrigation, so you were dependent upon nature. And then I did some rooting around, and said "wait a minute"; the Canadian government put over one million men in uniform during World War I. The population of Canada was what, ten million? This is a significant proportion of the labor force. The Canadian Pacific Railroad used to bring in migrant laborers from the eastern provinces that were always depressed—Newfoundland, Nova Scotia, those were the depressed areas—they would, in the spring and fall, transport migrant laborers to the prairies for the planting and harvesting season. Now, World War I saw lots of unemployment in Newfoundland, Nova Scotia, New Brunswick. But, tah-dah!, they go into the army.

LEE *And get shot at the Somme.*

HENRY Yeah, right. Not expecting to, but they did, right? They go into the army. The migrant labor force dried up. And then I discovered the Canadian government had a department of agriculture that sent out field surveyors, who talked to farmers, and collected the data. The farmers and these government employees had very good working relationships. The farmers would tell them everything because they knew it would be kept private. In fact, fairly recently, because they still do this, farmers were telling these government agents how much marijuana they were planting. And that indicates an extreme level of trust. So anyway, I was working on this dissertation that argued that the real problem was the shortage of farm labor. Because, you can accommodate the shortage of rain by plowing more deeply, but to plow more deeply—and you have horses—you need much more labor. And there was an import problem. You had a heavy tariff. Ford had introduced these small tractors that could have substituted for labor but because of the protective tariff, they were too expensive. They were in use in the United States, but they weren't in use in Canada. So I did all this research, and, somewhere along the line, my main advisor left. He was hired by the SUNY system. He had come out of Harvard, he was a cliometrician, and I was doing quantitative work, for God's sake! He left, and was replaced by a guy who just came out of Yale, and the guy wanted me to measure marginal products. I realized that this thesis would never see the light of day. I should have gotten a couple of journal articles out of it, but I didn't. And that's when I called Tom Asimakopulos. I said "look, I've got this problem: he wants me to measure marginal products, I'm not going to do it." And by that time, my interest had shifted in any case, and that's when I was becoming very critical of neoclassical economics. I wanted to learn more about the way it was formulated. Now, in the courses of the Cambridge controversy, Paul Samuelson and Paul Anthony wrote an article using the expression "John Bates Clark's Fairy Tale Capital."[2] George Stigler had an article on Clark, where he says, "ok, it's true, Clark introduces his ethical value system into his analysis of distribution, but the theory of distribution can stand on its own independent of Clark's ethics, his normative foundation."[3]

LEE *Red flag! Red flag!*

HENRY Exactly. So, Henry says "let's investigate Clark." Let's read everything he wrote from beginning to end, mainly from beginning to middle. That explains the John Bates Clark thesis. The Cambridge controversy deals with things as they had developed, but didn't pay much attention to the development process itself. So I viewed that dissertation as a contribution to the Cambridge controversy.

LEE *This is an example of doing History of Thought for contemporary theory.*

HENRY Exactly. Exactly. I can't think of any History of Thought paper that I've published that doesn't in some way speak to the current period—current in a general sense, obviously, right—that I'm trying to alert people to look at modern theory, current theory from a perspective that shows the relationship between something that was argued 100 years ago and something that's now been essentially repeated in a different form. And my emphasis is always, of course, on neoclassical theory. For example, the piece you [Tae-Hee] like, on "The Illusion of the Epoch" [2009a].

JO *It seems you had a particular purpose when you chose John Bates Clark.*

HENRY Yes, in fact much more than a particular purpose than my first dissertation, which was just to be a dissertation, basically. John Bates Clark was actually much more important in the sense of speaking to a theoretical issue that was then being debated.

JO *So, your PhD dissertation became two books?*

HENRY Became one book. Actually, the dissertation led to *The Origin of Neoclassical Economics*, because the dissertation was specific to J. B. Clark. Then you go beyond that. You say, if it's true for Clark, what about the rest? Then you look at the rest, essentially, or at least enough of the rest to make a case for the general. If you read my dissertation, if you read the book on J. B. Clark, you will actually see some fairly substantial differences. What I was planning to do when John Pheby asked me to do the book was to say; OK, all I have to do is to change a little bit here, a little bit there: it'll be easy. Instead, I reread everything. And if you don't learn something in twenty years, or whatever the time differential was, if you don't learn something in twenty years, what have you been doing? So you will actually see substantial differences. And, if you go to the last chapter, that's the chapter when I talk about what is J. B. Clark's general theory. When I wrote the dissertation, I really didn't understand the general theory. I mean, I understood the particulars of the marginal productivity of distribution, but in the last chapter, what he attempts to do, if you look at the body of his work, is to put forward actually a general theory. And I understood it, by forcing myself to read just about everything that I had previously read, but with a more critical eye, because I was more critical, and I had more under my belt, more understanding under my belt.

JO *You have long called for building a theoretical framework that is more relevant, more convincing, and more robust than the mainstream-neoclassical theory. Marx, Veblen, and Keynes, among others, play an essential role in your picture of the alternative. Given your long-time argument, readers may wonder what brings Marx, Veblen, and Keynes together. And why is the Marx–Veblen–Keynes trinity important in the making of the alternative theoretical framework?*

HENRY I would actually add Adam Smith to that list, so it's four, right? Because, not so much for what Smith did do, but for asking the questions, and raising the issues that people like Marx, Veblen, and to some extent Keynes, would grapple with. You can go a long way in just Smith's distinction between use and exchange value, for example. Of course, Marx opens volume one of *Capital* with a chapter on the commodity. What is a commodity? This distinction between use and exchange value, obviously, is very important. Smith also raised questions—he was a pro-capitalist economist, without question—but he had a lot of problems with capitalism. If you read *Lectures on Jurisprudence*, *The Theory of Moral Sentiments*, along with *The Wealth of Nations*, etc., he almost always prefaced self-interest with enlightened. His concern was what if they weren't enlightened, what if they exhibited just rampant, purely individualist, greedy, hedonistic behaviors, as opposed to some concern for the general well-being? Which is ostensibly what enlightened self-interest is about. You just don't act on the basis of your pure self-interest, individual interests, you have to take others into account. Well, if you go through Marx, if you go through Veblen, those kinds of questions are dealt with, they're addressed. Marx goes on and on and on and on, in his interminable, German style, dealing with it. It raises the question of alienation, among other things. I like to use Smith as a foundation, not so much for Smith's positive work, but for his negative, critical evaluations. But with regard to Marx, Veblen, Keynes, as we all know, they are all monetary production theorists. And that is the main thing that brings them all together. They were all concerned with the well-being of the underlying population, though Keynes, less so. However, Keynes speaks to this. There are essays that he wrote during the war where he talks about the need to address the standard of living of the laboring class. Marx and Veblen, of course, were much more concerned with this. Veblen in the social provisioning process, and so on. All had a critical position on capitalism, though again, Keynes, much less so. Keynes was trying to reform capitalism, so that it could survive, so he couldn't be that critical. Marx and Veblen were trying to eliminate the damn thing from world history, and replace it with something else. You can argue that in some fundamental ways, they shared a general perspective. Although again, Marx and Veblen are somewhat distinct from Keynes, but there's enough there to bring them together. You can't write a good general theory with just Marx and Veblen. You can't forget, you can't leave out the Keynesian stuff on money. Now, and obviously, there are other economists that you have to bring into the discussion. It's not just Marx–Veblen–Keynes. It's Marx–Veblen–Keynes buttressed by, and supported by, and modified by others, and then you have a secondary list: Fred Lee, Kalecki, Joan Robinson.

JO *What you have just described is what you called the organic whole, or the general theory?*

HENRY I used that term? Where?

JO *Your 2007 and 2010 articles, and your 1990 book,* The Making of the Neoclassical Economics.

HENRY That's pretty good.

JO *In your review* [2009b] *of Giuseppe Fontana's book,* Money, Uncertainty, and Time, *you state that "This [the alternative following Marx, Veblen, and Keynes] would be dangerous." Why is it so?*

HENRY If people are exposed to the real Marx, the real Veblen, and Keynes beyond *The General Theory*—you have to go beyond *The General Theory*—they develop a very critical stance with regard to capitalism, in particular, of course, the work of Veblen and Marx. Assuming that you don't care about respectability, and, of course, most of us do, if you don't care about respectability, you then just simply can't walk away from continuing that critical evaluation of capitalism after being exposed to these guys. So you can't continue to be supportive of an exploitative, destructive, anti-social organization such as capitalism. And that makes you dangerous. If you can't support capitalism any longer, what are you going to support?

LEE *Socialist commonwealth!*

HENRY If you're exposed to an alternative to neoclassical theory, you're also going to be exposed to an alternative to capitalism. You're going to start thinking about an alternative to capitalism. So that's why it's dangerous, and that's why there is so much effort, so much time, so much energy, so much brainpower making Marx safe for democracy, making Veblen safe for democracy, making Keynes safe—well, Keynes is safe by himself—but we see the various attempts to turn Marx into a liberal, the various attempts to define Veblen's politics as somehow nothing more than reformist, when that's not the case. So if you're honest, if you're intellectually honest, you don't want to be respectable, you want to be dangerous.

JO *What is, or should be, the first principle of your organic general theory?*

HENRY When I saw these questions you sent me, that one I really had to think about. When I realized what the answer was, it was so straightforward and simple I can't believe that it took me a while to see it. The first principle is that everything changes. And if everything changes, then there is no universality, there is no normality, there is no natural anything. Everything is created by us, we make ourselves, in a sense—the old V. Gordon Childe book, *Man Makes Himself*. We make ourselves.

LEE *Not after our own choosing.*

HENRY Not as we choose, that's right. You can't do just any old thing. You can't make yourself in any old way. You can't remake society in any old way. And there are some ways we could remake society that we wouldn't want to. We could probably remake slavery, if we so chose, but we don't want to do that, or at least most of us don't want to do that. So everything changes. From that principle, a heck of a lot follows. Because if everything changes, you have to have a theory that incorporates change, an explanation for change. If there are no universals, then you have to have a theory of capitalism as a distinct social organization. There might be relationships to other forms of social organization, but capitalism is distinct. And if nothing is normal, if nothing is natural, then you can't rely on that. You can't fall back on natural law, you can't say that the way things are done by capitalist society in its fifty-seven varieties [Minsky] is normal, because even within capitalism, nothing is normal. Except exploitation.

JO *One of my favorite pieces you wrote is your AFIT presidential address delivered at Calgary in 2007. The title was "Would Groucho Join AFIT?" Here you make a clear distinction between neoclassical economics including its variants (e.g., experimental economics, dynamic-evolutionary game theory, behavioral economics, and the like) and heterodox economics. Apparently, some heterodox* *economists would not agree with you. Moreover the so-called "the pluralism debate" has remained on the table for some time without a conclusion or consensus. Do you think it is worthwhile for heterodox economists to engage in such a debate, while neoclassical economists don't care about heterodox economics? And do you think there will be an end to the debate?*

HENRY I think it's worthwhile to debate, to participate, in one respect, and that is to convince those on the heterodox side that neoclassical economics has not changed its stripes and will not change its stripes. Fred and I gave a paper years ago at an AFIT gathering on an argument proposed by John Davis. Fred did most of the work on that one. I think we have to get back to this issue of respectability. I don't want to be accusatory, but if you make an argument that your heterodoxy is really very close to, if not just a different form of orthodoxy, which is essentially what this amounts to, orthodoxy is essentially what it is. I remember Geoff Hodgson, when he gave his presidential address at AFEE, he had this box. He said this is the way it used to be, they were there, we were here, and now we're moving together. If you hold to that position, what you are doing is denying what constitutes heterodoxy, essentially. It's not that orthodoxy is moving closer to heterodoxy; it's that heterodoxy is moving closer to orthodoxy. It's worthwhile engaging in that debate to try to stem that tide. Not to convince neoclassical economists. You might have some impact on young economists, as long as they aren't very well trained. If they come out of Chicago, I don't think so. If they come out of the lesser schools, where the training program isn't as severe, or as good, then maybe there are sufficient gaps where you can sneak in. But for the most part, no, it's to engage other heterodox economists.

JO *Do you think heterodox economists have made significant effort to communicate with each other?*

HENRY The answer is no. This is one of the problems. It's not just a problem in that you've got different camps within heterodoxy, and of course, Fred likes to include the Austrians in the heterodox community.

LEE *No, no way!*

HENRY It's that you've got camps within the camps. In other words, there is no unified Marxist camp, there is no unified Institutionalist camp; there is no unified feminist camp. I remember Zdravka Todorova, when she came here [UMKC] years ago, and she gave a talk about feminist economics, and she went down the list. Well, there's a neoclassical version, there's existential feminism, and there's socialist feminism, etc. You just go down the list. There is no such thing as feminist economics as a single, unified camp. This is one of the problems. I recently finished a book by [Daniel T.] Rodgers, *Age of Fracture*. It came out two years ago, maybe a year ago. Fred and I go back to the 1960s. In the 1960s, and into the 1970s, it looked like there was sort of a convergence among critics of capitalism. The anti-war movement, the civil rights movement, it was sort of coming together. We should remember Martin Luther King and his Riverside Church speech. All of a sudden, it seemed, things started to separate. And so you didn't have a women's movement anymore, you didn't have an environmental movement, you had fifteen women's movements, you had fifteen environmentalist movements, you had fifteen versions of Post Keynesian economics. Fred was there at the beginning of Post Keynesian economics. Rather than coming together, it splintered. So we all form our own Post Keynesian cluster. If you follow Paul Davidson, you can't even form a Post Keynesian community, because there's only one Post Keynesian.

LEE *I actually think, when you just said "one Post Keynesian" is that it would make him too distant from the mainstream. He didn't want to lose that form of respectability, and there was no way to overcome that. I should have actually pushed for it, but I was too young.*

HENRY Yeah, you had no prestige yourself at the time, no respectability within the unrespectable camp. But this is a real problem. So the question is, is it possible to develop a general theory that has unifying principles, to which people of different camps can subscribe and still retain some independence for their own position. And that's a very difficult question to address. I think I would have the answer to that, but it would differ if you were talking to someone else who is a certified heterodox theorist.

LEE *What you can say is that the effort is to create one, even though we don't know what it is.*

HENRY I think that's correct. Because if you don't work to create one, you aren't working to change things. And if you don't work to create one, then the shit will really hit the fan, and things will get worse.

LEE *The point of UMKC's education is to have their students come out and follow a kind of agenda that brings these things together, whatever that may be.*

HENRY Yeah, whatever it is. It has to draw on the big names. You've got to draw on Marx, you've got to draw on Veblen, and you've got to draw on Keynes. That's why I put those three together. But there's a whole list of secondary figures that have to be drawn on as well. None of them have the complete answer to everything. You can't, because everything changes. Henry's unifying principle, or whatever.

LEE *Or some things remain relatively stable, like class.*

HENRY True, correct. The idea, the hope, is that we can change that, in the long run.

JO *I was half-joking when I asked you before whether Karl Marx would join AFIT or not. Let me ask you the question again, now half-seriously and a bit exaggeratedly. Would Karl Marx join AFIT or AFEE given the recent changes in institutional economics—for example, an attempt to incorporate the "cutting-edge" of mainstream? Likewise, would Thorstein Veblen join URPE?*

HENRY I can answer that in one word: no. Definitely not. In fact, I think both Marx and Veblen would probably display an obscene gesture in response. Now, it is true that Marx was obviously very active in the First International. Marx would join an organization that would be of a revolutionary nature. For him, I don't think there would be much of a point in any other type of organization. Veblen, of course, was not a joiner at all. Asking the hypothetical question, would he join URPE? I doubt it very much. Again, the usual positions you hear from URPE representatives are so far removed from Veblen's objectives of his general theory that there'd be little point in joining in forces with those guys. I think it's as likely that Veblen would join URPE as Marx would join AFIT or AFEE; neither would join any of those organizations. We would because we feel obligated to participate in trying to maintain a decent heterodox perspective, or set of perspectives. Marx and Veblen wouldn't care about that.

LEE *Which would indicate why Veblen had so little impact?*

HENRY That's true. A very good question, very important question. Marx still has a reputation. People still read Marx. That's because he was pointedly directing his work toward fundamental change. And for those people who see the need for fundamental change, they go to Marx, they don't go to Veblen. There are several liabilities with Veblen, I think. One of them of course, is simply the way he writes. [Douglas] Dowd would say that is because he is concealing his true position. Well, if that's true, then it's a problem. You don't want to conceal your true position; you want your position to be understood. I read Veblen, and I see a very radical critique of capitalism, and a proponent of some kind of socialist commonwealth. Whether it's of an IWW variety, or a Bolshevik variety, I don't care so much about that, but some kind of alternative. But, it's hidden; it's concealed, for the most part. And who reads the essays on Bolshevism. Almost nobody. Or if they do read, they say, well, he obviously went nuts for a little while. That is one explanation why he wrote those essays—and, in my opinion, not the correct explanation. No, the answer is no.

Conclusion

JO *At the closing of your teaching career, but it's not the end of your scholarly career, I believe, what do you want to say to the younger generation of heterodox economics?*

HENRY I'll say what Marx said to younger Marxists, or quasi-Marxists, as he was approaching the end of his life: Struggle.

Notes

1 This interview was conducted on April 24, 2014 at the Hodges-Lee library in the Department of Economics at the University of Missouri-Kansas City.
2 Paul Samuelson. 1962. "Parable and Realism in Capital Theory: The Surrogate Production Function." *Review of Economic Studies* 39 (3): 193–206.
3 George Stigler. 1941. *Production and Distribution Theories.* New York: Macmillan.

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