Lecture Notes: Smith, Marx, Keynes:

A View of the History of Economic Thought (UNFINISHED)

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1. Smith, Marx, Keynes

The aim of this course is to examine the history of economic thought through the lens of three major economic thinkers: Adam Smith, Karl Marx, and John Maynard Keynes, each of whom wrote one long, difficult, but undeniably great book. Adam Smith in 1776 published his *An Inquiry into the Nature and Causes of the Wealth of Nations*. Karl Marx in 1867 published his *Capital: A Critique of Political Economy* (volume 1). John Maynard Keynes in 1936 published his *The General Theory of Employment, Interest and Money* (note the absence of the Oxford comma from Keynes's title: Keynes was a British academic but not one from Oxford but rather from the University of Cambridge). In addition, read Robert Heilbroner's excellent (if old) *The Worldly Philosophers*, a short survey of the history of economic thought, for context and background.

Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations*, Marx's *Capital: A Critique of Political Economy,* and Keynes's *The General Theory of Employment, Interest and Money* are great books to have read, if not easy books to read. They are, in fact, downright painful. (Heilbroner's *The Worldly Philosophers* is, by contrast, painless, easy, and still great.) Learning how to read great but difficult books and make sense of them on your own is a very valuable skill to learn, but a difficult one to teach in any way but by doing it. Moreover, a great book is a great book only if the reader is ready and prepared to read it—and so learning to figure out how to become the kind of reader to appreciate a particular great book is another important skill to learn as well.

2. Economic Sides of Smith's Philosophy

2.1. Starting Points in Human Nature

Adam Smith starts with the observation that humans are largely but not exclusively self-interested creatures: we are, largely but not exclusively greedy. Yet we have a complex and sophisticated societal division of labor. And that division of labor is essential to our prosperity. Indeed, it is essential to our survival: drop one or two of us into the Sierra Nevada, even in summer, and we will quite likely die. Drop 100 of us, and we will quite likely survive, and even flourish.

How can animals that are by nature greedy nevertheless cooperate on a large scale? That is the deep moral-philosophical question that we can see both of Smith's big books—his *The Theory of Moral Sentiments* and *An Inquiry into the Nature and Causes of the Wealth of Nations*—as aimed at. As Robert Heilbroner puts it in his *The Worldly Philosophers*, Smith:

> is interested in laying bare the mechanism by which society hangs together. How is it possible for a community in which everyone is busily following his self-interest not to fly apart from sheer centrifugal force? What is it which guides each individual's private business so that it conforms to the needs of the group? With no central planning authority and no steadying influence of age old tradition, how does society manage to get those tasks done which are necessary for survival?...

Adam Smith says that our ability to create and maintain a complicated societal division of labor that is so productive rests on three facets of human nature:

1. language, that makes us an anthology intelligence—what one of us knows or learns, pretty quickly all of us within and many of us without earshot will quickly learn;

2. hierarchy, in that we tend to form and respect weak dominance

hierarchies in which we can command and obey;

3. gift exchange: we bind ourselves by forming gift-exchange relationships, what Adam Smith called our “natural propensity to truck and barter“. We firmly expect to be and are very happy when I we trade favors with each other, and we are uneasy when we feel as though we are always giving or always receiving, for we want the exchange of gifts and favors to be reciprocal, and roughly balanced.

Back in our environment of evolutionary adaptation, we could form gift-exchange relationships only with a few: our close neighbors, our good friends, and our near kin. Trust, you see, is necessary for a long-term gift-exchange relationship, and short-term such relationships are rare because each has to have and be willing to give up something the other wants or needs right now. And since we are largely self interested, trust is hard to generate and maintain without other binding social ties.

2.2. From Human Nature to Human Society

Hence the key importance of the human cultural invention of money in forming our large-scale human society: money means that any one of us can make a short-term one-shot exchange relationship with any other one of us, someone who we may well never see again. Money, you see, is manufactured trust, and it allows us to extend our societal division of labor to encompass, indirectly, nearly everybody else in the world.

For example, consider the 30-foot bronze statue of Athene Promakhos—Athena Fighting-in-Front—that the council and people of Athens had cast and installed on the Acropolis around -450. The Greek geographer Pausanias wrote that anyone approaching Athens by sea by day could see her gleaming helmet and the tip of her spear as soon as they had rounded Sounion Head at the southern tip of Attika. 70 tons of bronze supposedly went into the statue, which survived until 1204—63 tons of copper, 7 tons of tin. Copper was abundant. But where in the -5th century were the artisans of Athens to find 7 tons of tin? The historian Herodotos states that he could find nobody in Athens who knew where the tin was coming from: all anyone could say was that the ships had picked up the tin, already mined, in Sicily, and that they thought it came from "tin islands" in the ocean on the other side of Europe. But he could find nobody who would claim to have actually seen these tin islands, or this ocean on the other side of Europe. So he doubted the stories.

The answer, of course, was that the tin was in Cornwall, at the southwestern tip of the island of Britain. The societal division of labor, as governed by the market, was a mechanism that "knew" that 7 tons of tin needed to be mined in Cornwall and then shipped, probably via the English Channel-Seine-portage-Rhone-Mediterranean route, to Athens via Sicily. And so it happened. But, apparently, nobody anywhere in the value chain knew its entire extent. The market knew things that no human individual knew. And this was almost 2.5 millennia ago: the market knows much, much, much more now.

Language, weak dominance, gift exchange, and money have enabled us to progress from perhaps 10,000 of us 70,000 years ago living at a global average living standard of perhaps three 3.5 dollars a day to today's world-girdling societal division of labor now 7.5 billion strong, with a global average standard of living no about $35 a day. We are now, collectively, on average, at least 10 times as well-off and 750,000 times as numerous as we were 70,000 years ago back in the environment of evolutionary adaptation when we last passed through a Darwinian bottleneck.

2.3. Society & the "System of Natural Liberty"

Adam Smith was a genius because he had a truly game-changing insight into how our societal division of labor should be organized. As far as the production and distribution of our collective material wealth is concerned, you see, most of what we need and want is both excludible and rival.

If something is “excludible”, that means we can assign it an owner—some one of us can be designated to control it, and to decide on its use, or decide to transfer “ownership” of it to something else. If something is excludible, we can push the decisions about how it is to be used out to the periphery of society, to the people on the ground who know what is going on, rather than have the decision made by some centralized bureaucracy clueless because of its inability to reliably judge information conveyed to it at third- or fourth-hand. Having ownership makes sense if information about what is going on is dispersed and hard to assemble: giving control to people on the spot is then a very good idea.

If something is “rival”, that means that one person's use of it forecloses the opportunities of others: if I am using this iPhone, you cannot be using the same iPhone. If a good is rival, that one of us is using it diminishes the opportunities and possibilities available to others. That makes them poorer. Thus it makes sense to charge a price for somebody using a rival commodity. That makes them feel in their gut the effects of their decisions on the opportunities open to others. Charging prices is a way to align individuals’ incentives about whether it is worth it for them to make use of a commodity with the effects of their decision on the overall well-being of the society.

Hence, Adam Smith argued in his *Inquiry into the Nature and Causes of the Wealth of Nation*s, the wealth of nations is most greatly enhanced by following the dictates of what he named the System of Natural Liberty —“liberty” because it leaves people free to do what they wanted with their labor and their possessions, “natural” because it conforms with human nature, "system" because it can be and is extended to the status of a general principle. Let people decide what they want to do with their things and their labor, and they arrange themselves in a large highly-productive societal division of labor. Self-interest focuses people on creating value. Competition curbs any distracting focus of self-interest on accomplishing exploitation.

This "System of Natural Liberty" is, Smith argues, good. As Heilbroner summarizes:

> Self-interest… drives men to action…. [But] a community activated only by self-interest would be a community of ruthless profiteers. This regulator is competition, the socially beneficial consequence of the conflicting self-interests of all the members of society. For each man, out to do his best for himself with no thought of social cost, is faced with a flock of similarly motivated individuals who are in exactly the same boat…. A man who permits his self-interest to run away with him will find that competitors have slipped in… will find himself without buyers in the one case and without employees in the other. Thus very much as in the *Theory of Moral Sentiments*, the selfish motives of men are transmuted by interaction to yield the most unexpected of results: social harmony…. The… market is that it is its own guardian. If output or prices or certain kinds of remuneration stray away from their socially ordained levels, forces are set into motion to bring them back to the fold. It is a curious paradox which thus ensues: the market, which is the acme of individual economic freedom, is the strictest task master of all…

This leads to a fraught question: Is this a *theological* point? Is the fact that acting "naturally" in the sense of giving market exchange free rein produces good results evidence that there is a benevolent Providence out there? Is this a *teleological* point? Are, in some sense, money and gift-exchange aimed at creating prosperity? How is it that processes that are not human—that lead to consequences not desired directly by any human—have a mind of their own, and lead to good ends? It is indeed a marvel that, as Smith puts it, in his theory at least:

> [While] every individual… endeavours… to direct that industry that its produce may be of the greatest value… labours to render the annual revenue of the society as great as he can…. He… neither intends to promote the

> public interest, nor knows how much he is promoting it…. He intends only his own security…. He intends only his own gain…. In this, as in many other cases, [he is] led by an invisible hand to promote an end which was no part of his intention…”

It is a marvel. But what kind of a marvel is it?

It is not that Smith is opposed to government. Government is necessary to protect property, and to enforce contracts: people—most people—will respect others’ property and keep their own contracts, most of the time. But for the non-most people and at the non-most times we need the police, hence we need government. We need public works. We need public education. We need national defense. Adam Smith is very clear on all of these. In fact, Book V of the *Wealth of Nations* on what the government should do and how it should do it is the largest of the five parts of the book. But, Smith is certain, attempts of some centralized bureaucrat to undermine the System of Natural Liberty in its proper sphere—to direct who should do what when and where—were likely to produce not wealth and prosperity but poverty and misery.

2.4. Adam Smith & Poverty

Adam Smith loathes poverty. Adam Smith is eager to create a society in which there is no poverty. Adam Smith spends a substantial amount of time investigating the course of poverty over time. For example, he takes time and care to write:

> During the course of the last century, taking one year with another, grain was dearer in both parts of the united kingdom than during that of the present…. It is equally certain that labour was much cheaper. If the labouring poor, therefore, could bring up their families then, they must be much more at their ease now. In the last century, the most usual day-wages of common labour through the greater part of Scotland were sixpence in summer, and fivepence in winter.… Through the greater part of the Low

> country, the most usual wages of common labour are now eight pence a-day; tenpence, sometimes a shilling, about Edinburgh…. In England, the improvements of agriculture, manufactures, and commerce, began much earlier than in Scotland. The demand for labour, and consequently its price, must necessarily have increased with those improvements. In the last century, accordingly, as well as in the present, the wages of labour were higher in England than in Scotland. They have risen, too, considerably since that time, though, on account of the greater variety of wages paid there in different places, it is more difficult to ascertain how much…. Not only grain has become somewhat cheaper, but many other things from which the industrious poor derive an agreeable and wholesome variety of food have become a great deal cheaper. Potatoes… cost half the price which they used to do thirty or forty years ago. The same thing may be said of turnips, carrots, cabbages; things which were formerly never raised but by the spade, but which are now commonly raised by the plough. All sort of garden stuff, too, has become cheaper…. The great improvements in the coarser manufactories of both linen and woollen cloth furnish the labourers with cheaper and better clothing; and those in the manufactories of the coarser metals, with cheaper and better instruments of trade, as well as with many agreeable and convenient pieces of household furniture…

Which he then cross-checks with elite gossip:

> The common complaint that luxury extends itself even to the lowest ranks of the people, and that the labouring poor will not now be contented with the same food, clothing, and lodging which satisfied them in former times, may convince us that it is not the money price of labour only, but its real recompense, which has augmented…

Having established that poverty has diminished, he next launches a full-bore attack on all those who claim this is a bad thing:

> Is this… to be regarded as an advantage or as an inconveniency?… Servants, labourers, and workmen… make up the far greater part…. What improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable…

And then he makes a strong appeal to human solidarity, and to the reciprocal obligations humans undertake by entering into the gift-exchange relationships that knit society together:

> It is but equity, besides, that they who feed, clothe, and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed, and lodged…

"It is but equity, besides…" This is a very strong appeal to human solidarity. It is coming from someone often seen as and sometimes dismissed as an apostle of human self-interest.

2.5. Adam Smith & Inequality

2.5.1. Inequality Generated Outside the Market

Smith's first way of minimizing the importance of inequality—or at least minimizing the responsibility of the market and of the economy for fighting inequality—is to argue that inequality springs from politics and sociology rather than from market economics. Inequality arises from the role that hierarchy and command-and-control play in the mixed-up processes that are human society. The society of England becomes more unequal because William the Bastard from Normandy and his thugs with spears—300 families, plus their retainers—kill King Harold Godwinson, and declare that everyone in England owes him and his retainers 1/3 of their crop. The society of England becomes more unequal because Queen Elizabeth I Tudor grants a monopoly over trade with America to Sir Walter Raleigh. Why? Because he had successfully flirted with her. These are not *economic* processes. These are not closely connected with the "system of natural liberty" than is the market economy.

Indeed, the system of natural liberty is only one way you can organize society. Societies can be organized as ones of feudal lords and peasants, as priests and worshippers, robbers bands and their victims. But these ways of organizing society are impoverishing and, Smith claims in his very naming of his system the "System of Natural Liberty"—unnatural. Dugald Stewart quotes from one of Smith's lectures that, at least in the lecture hall at Glasgow in 1749, Smith was blunt:

> Little else is required to carry a state to the highest degree of affluence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things…

I believe that the later Adam Smith would note that "tolerable administration of justice" covers a lot of ground: the later books of *An Inquiry into the Nature and Causes of the Wealth of Nations* are very long indeed: Book III on how the historical development of Europe has let it to deviate from the System of Natural Liberty is 43 pages, Book IV on errors being made in 1776 by the governments of Europe is 273 pages, and Book V on what governments should and should not do is 276 pages—a total of 592 pages on what governments should, should not, and have unfortunately done, with only a total of 346 pages laying out Smith's analytical system and its conclusions, among them that:

> All governments which thwart this natural course, which force things into another channel, or which endeavor to arrest the progress of society at a particular point, are unnatural, and, to support themselves, are obliged to be oppressive and tyrannical…

As Heilbroner puts it:

> The great enemy to Adam Smith's system is not so much government per se as monopoly—in any form. "People… meet[ing] together… [and] the conversation ends in… some diversion to raise prices."… If the working of the market is trusted… anything that interferes… lowers social welfare. If, as in Smith's time, no master hatter anywhere in England could employ more than two apprentices or no master cutler in Sheffield more than one, the market system cannot possibly yield its full benefits…. If, as in Smith's

> time, great companies are given monopolies of foreign trade, the public cannot realize the full benefits of cheaper foreign produce. Hence, says Smith, all these impediments must go…

2.5.2. Wealth Inequality Prevents More Damage

Adam Smith's second way of minimizing the importance of economic inequality is to claim that it is a relatively gentle alternative to other forms of inequality that will emerge if economic inequality is reduced. Smith argues in Book III of the *Wealth of Nations* that the rise in inequality in market income and consumption went along with reduced inequality in social status and hierarchy—and in reduced societal violence as well. Great landlords who cannot earn and spend their wealth in the city will focus on arming and maintaining retainers, and the result will be that they will "make war according to their own discretion, almost continually upon one another, and very frequently upon the king; and the open country still continued to be a scene of violence, rapine, and disorder". But once there are luxuries to be purchased by wealth earned by selling produce to the growing cities, "it was impossible that the number of their retainers should not as gradually diminish, till they were at last dismissed altogether", and so peace came to the countryside.

As John Maynard Keynes was to write a century and a half later: "It is far better for a man to tyrannize over his bank balance than over his fellow citizens…"

2.5.3. Smith Gets Snarky, Stoic, and Cynical

Snarkism: Adam Smith's third way of minimizing the importance of economic inequality is to snark. The aim of wealth is to make you happy. Smith thinks that what wealthy women wish they could buy is beauty, and what wealthy men wish they could buy is strength. But who are the beautiful and strong in England? Adam Smith tells us in an aside on nutrition on the good qualities of the potato:

> The chairmen, porters, and coal-heavers in London, and those unfortunate women who live by prostitution, the strongest men and the most beautiful women perhaps in the British dominions, are said to be, the greater part of them, from the lowest rank of people in Ireland, who are generally fed with this root [the potato]…

The rich aren't doing a terribly good job of using their wealth to promote human flourishing, are they? And there is the implication that the rich are none too happy. We see Smith, and what he is doing here, I think.

Stoicism: Adam Smith's fourth way of minimizing the importance of economic inequality is to assume the philosophical pose of the stoic. One works hard. One sacrifices one's peace and leisure in order to get rich. And what does that get you as you age? Adam Smith writes that to the aging, looking back at a life in which they have sacrificed their ease and their happiness in order to gain wealth:

> Power and riches appear then to be, what they are, enormous and operose machines contrived to produce a few trifling conveniencies to the body, consisting of springs the most nice and delicate, which must be kept in order with the most anxious attention, and which in spite of all our care are ready every moment to burst into pieces, and to crush in their ruins their unfortunate possessor. They are immense fabrics, which it requires the labour of a life to raise, which threaten every moment to overwhelm the person that dwells in them, and which while they stand, though they may save him from some smaller inconveniencies, can protect him from none of the severer inclemencies of the season. They keep off the summer shower, not the winter storm, but leave him always as much, and sometimes more, exposed than before, to anxiety, to fear, and to sorrow; to diseases, to danger, and to death…

Who then benefits from all the industry and toil of the upwardly-mobile? Adam Smith argues that it was, somewhat paradoxically, the poor. The rich sacrifice their true happiness to set in motion enterprises. And the commodities produced by those enterprises are principally consumed by the poor:

> The earth by these labours of mankind has been obliged to redouble her natural fertility, and to maintain a greater multitude of inhabitants…. The proud and unfeeling landlord…. The capacity of his stomach bears no proportion to the immensity of his desires, and will receive no more than that of the meanest peasant. The rest he is obliged to distribute among those, who prepare, in the nicest manner, that little which he himself makes use of… all of whom thus derive from his luxury and caprice, that share of the necessaries of life, which they would in vain have expected from his humanity or his justice…

Cynicism: Fifth and last, Adam Smith minimizes the importance of economic inequality by claiming that there is little or nothing to be done about it. Human nature is such that people will seek to create, and then to obey, those whom they will call their superiors. It is the view expressed by Calvera in the movie *The Magnificent Seven.* Chico asks Calvera:

> And the people of the village? What about them?

Calvera responds:

> I leave that to you. Can men of our profession worry about that? If God did not want them to be sheared, he would not have made them sheep!

As Adam Smith puts it in his *Theory of Moral Sentiments*:

> A stranger to human nature, who saw the indifference of men about the misery of their inferiors, and the regret and indignation which they feel for the misfortunes and sufferings of those above them, would be apt to imagine, that pain must be more agonizing, and the convulsions of death more terrible to persons of higher rank, than they are to those of meaner stations.

> Upon this disposition… is founded the distinction of ranks, and the order of society. Our obsequiousness to our superiors more frequently arises from our admiration for the advantages of their situation, than from any private expectations of benefit from their goodwill…. We desire to serve them for their own sake, without any recompense but the vanity or the honour of obliging them…

To attempt to eliminate inequality is, for Smith in his cynical mode, like trying to bail out the sea: make society equal, and people will find somebody to look up to, and then figure out a way to give their money away to the rich.

So that is Adam Smith: worry about prosperity and wealth, yes; worry about poverty and want, yes; worry about inequality, not so much.

Needless to say, Karl Marx did not agree that income inequality is not worth a great deal of concern. He saw inequality as a necessary product of the market economy, a necessary product that poisoned all of its fruits, and one that made hopes of eliminating or even reducing poverty and dire poverty vain.

3. Karl Marx's Intuitions

3.1. Marx's Enthusiasm for the Market

But back up. First, note that Karl Marx was much more enthusiastic about the market economy and the prospects for the societal division of labor than Smith had been. This enthusiasm had multiple causes:

- Marx lived 75 years later, in a time of much more rapid economic growth.
- Marx saw, much more clearly, technology as the magic force that it was

going to be.

- Smith wanted to make his way in the world as an upwardly mobile outsider intellectual taking a measured view of things and entertaining his potential audience; Marx wanted to leave his mark upon the world—hence all his enthusiasms, and all his hates, were outsized.
- Marx was, in a very strange way, a Fundamentalist Christian—albeit a massively heretical one: a firm believer in the redemption and total transformation not of an individual soul bur of humanity at the hands of a benevolent power. As American literary critic Edmund Wilson was to write in 1940: a lot of Marx's and Marxist writing makes no sense unless you replace phrases like "progress of history" and "dialectic of history" with "Providence" and "God".

We see this enthusiasm show through in the passages of *Capital* in which Marx talks about the transformative work that is being done by the capitalist market economy. But it shines through much more clearly in Marx and Engels's 1848 *Communist Manifesto*, in an extended passage that outstrips pretty much anything ever written by capitalism's friends:

> The bourgeoisie, historically, has played a most revolutionary part…. The bourgeoisie has disclosed how it came to pass that the brutal display of vigour in the Middle Ages, which reactionaries so much admire, found its fitting complement in the most slothful indolence. It has been the first to show what man's activity can bring about. It has accomplished wonders far surpassing Egyptian pyramids, Roman aqueducts, and Gothic cathedrals; it has conducted expeditions that put in the shade all former Exoduses of nations and crusades.
>
> The bourgeoisie cannot exist without constantly revolutionising the instruments of production, and thereby the relations of production, and with them the whole relations of society. Conservation of the old modes of production in unaltered form, was, on the contrary, the first condition of existence for all earlier industrial classes. Constant revolutionising of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones. All fixed, fast-frozen relations, with their train of ancient and

venerable prejudices and opinions, are swept away, all new-formed ones become antiquated before they can ossify. All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses his real conditions of life, and his relations with his kind.

The need of a constantly expanding market for its products chases the bourgeoisie over the entire surface of the globe. It must nestle everywhere, settle everywhere, establish connexions everywhere.

The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country. To the great chagrin of Reactionists, it has drawn from under the feet of industry the national ground on which it stood. All old-established national industries have been destroyed or are daily being destroyed. They are dislodged by new industries, whose introduction becomes a life and death question for all civilised nations, by industries that no longer work up indigenous raw material, but raw material drawn from the remotest zones; industries whose products are consumed, not only at home, but in every quarter of the globe. In place of the old wants, satisfied by the production of the country, we find new wants, requiring for their satisfaction the products of distant lands and climes. In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal inter-dependence of nations. And as in material, so also in intellectual production. The intellectual creations of individual nations become common property. National one-sidedness and narrow-mindedness become more and more impossible, and from the numerous national and local literatures, there arises a world literature.

The bourgeoisie, by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian, nations into civilisation. The cheap prices of commodities are the heavy artillery with which it batters down all Chinese walls, with which it forces the barbarians' intensely obstinate hatred of foreigners to capitulate. It compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it compels them to introduce what it calls civilisation into their midst, i.e., to become bourgeois themselves. In one word, it creates a world after its own image.

> The bourgeoisie has subjected the country to the rule of the towns. It has created enormous cities, has greatly increased the urban population as compared with the rural, and has thus rescued a considerable part of the population from the idiocy of rural life. Just as it has made the country dependent on the towns, so it has made barbarian and semi-barbarian countries dependent on the civilised ones, nations of peasants on nations of bourgeois, the East on the West.
>
> The bourgeoisie keeps more and more doing away with the scattered state of the population, of the means of production, and of property. It has agglomerated population, centralised the means of production, and has concentrated property in a few hands. The necessary consequence of this was political centralisation. Independent, or but loosely connected provinces, with separate interests, laws, governments, and systems of taxation, became lumped together into one nation, with one government, one code of laws, one national class-interest, one frontier, and one customs-tariff.
>
> The bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations together. Subjection of Nature's forces to man, machinery, application of chemistry to industry and agriculture, steam-navigation, railways, electric telegraphs, clearing of whole continents for cultivation, canalisation of rivers, whole populations conjured out of the ground — what earlier century had even a presentiment that such productive forces slumbered in the lap of social labour?…

"What earlier century had even a presentiment that such productive forces slumbered in the lap of social labour?"

The *bourgeoisie* —the market economic system in which the capitalists, the business class, hold the reins and have the wealth—has, is, and will create the material abundance needed for humanity to pass through the gates of history and enter its proper destiny of utopia.

3.2. Marx's Loathing of the Market

But by that same token the *bourgeoisie* has become the chief, indeed the only, obstacle keeping humanity in chains and away from that utopia. Rather than Smith's benign view that market-generated inequality was not a huge problem for the market economy, market-generated inequality is, for Marx, pretty much the only problem:

> Modern bourgeois society, with its relations of production, of exchange and of property, a society that has conjured up such gigantic means of production and of exchange, is like the sorcerer who is no longer able to control the powers of the nether world whom he has called up.… The revolt of modern productive forces against modern conditions of production, against the property relations that are the conditions for the existence of the bourgeois and of its rule.…
>
> In proportion as the bourgeoisie, i.e., capital, is developed, in the same proportion is the proletariat, the modern working class, developed — a class of labourers, who live only so long as they find work, and who find work only so long as their labour increases capital. These labourers, who must sell themselves piecemeal, are a commodity, like every other article of commerce, and are consequently exposed to all the vicissitudes of competition, to all the fluctuations of the market. Owing to the extensive use of machinery, and to the division of labour, the work of the proletarians has lost all individual character, and, consequently, all charm for the workman. He becomes an appendage of the machine, and it is only the most simple, most monotonous, and most easily acquired knack, that is required of him.…
>
> The modern labourer… becomes a pauper, and pauperism develops more rapidly than population and wealth.… It becomes evident, that the bourgeoisie is unfit any longer to be the ruling class… because it is incompetent to assure an existence to its slave within his slavery… its existence is no longer compatible with society.… The development of Modern Industry, therefore, cuts from under its feet the very foundation on which the bourgeoisie produces and appropriates products. What the bourgeoisie therefore produces, above all, are its own grave-diggers. Its fall and the victory of the proletariat are equally inevitable…

Marx thought that the capitalist market economy with private property—private ownership of the means of production—was intolerable. Even though it had created enough wealth to easily eliminate poverty, it operated so poorly that it multiplied poverty. And so history would not long tolerate it.

3.3. Sources of Marx's Loathing

In many ways, Marx simply trying to make sense of what he saw. Not Marx but British liberal establishment icon John Stuart Mill wrote, in 1873:

> It is questionable if all the mechanical inventions yet made have lightened the day's toil of any human being. They have enabled a greater population to live the same life of drudgery and imprisonment, and an increased number of manufacturers and others to make fortunes. They have increased the comforts of the middle classes…

Denser populations, more and richer plutocrats, a larger middle class, the same-old same-old of poverty and misery for the mass of humanity—those were all the fruits John Stuart Mill saw of the 1730-1870 Industrial Revolution. Whatever possibilities for a better world existed in the womb of better technology were stillborn. One word in Mill's paragraph stands out: *imprisonment*. The world Mill saw was not just a world of drudgery—where humans had to work long and tiring hours at crafts and tasks that came nowhere near to being sufficiently interesting to engage the full brainpower of an East African Plains Ape. The world Mill saw was not just a world in which most people were close to the edge of being desperately hungry, and were justifiably anxious about where their 2000 calories a day were going to come from next year—or net week. The world Mill saw was not just a world of low literacy—where most could only access the collective human store of knowledge, ideas, and entertainments partially and slowly. It was a world in which humanity was *imprisoned*: not free. Humanity was in a dungeon, chained and fettered.

(Note that modern "libertarians" draw heavily both on John Stuart Mill as their founder and inspiration and on the Oxford inaugural lecture of Isaiah Berlin (1958): Two Concepts of Liberty, with its claim that "negative" and "positive" liberty are in "direct conflict". They fundamentally misconstrue John Stuart Mill, fail at some fundamental level to grasp what Mill thought the libertarian project was. Berlin's definition that "I am normally said to be free to the degree to which no man or body of men interferes with my activity… the area within which a man can act unobstructed by others…" is one in which Mill's use of the word *imprisonment* makes no sense at all.)

How could this continuation of general poverty and misery *be*, given the enormous productivity of modern humanity resulting from the magic of the market and the magic of science and technology?

Marx tried to find out.

3.4. Marx's Intellectual Journey

3.4.1. Student and German Hegel-Style Philosopher

Marx started out as an intellectual, an academic, a student at the university in Berlin, trying to become a Hegel-style German philosopher. In 1841 wrote finished a dissertation, *The Difference Between the Democritean and Epicurean Philosophy of Nature,* analyzing and reanalyzing small differences in how different groups of Greek philosophers in the -4th century understood the foundation of the natural world—an interesting topic, especially considering that next to none of the works of Epicurus survived the decisions of the monks of the middle ages to erase useless documents and reuse the parchment for something else because parchment was then expensive to buy. Demokritos had believed that at bottom nature was "atoms and the void": individual particles bouncing and clinging to each other in space according to their laws of motion. Epikouros believed that there had to be more: the atoms had to be able to "swerve" to bring, chance, contingency, change, thought, and free will into the universe.

The young German-style philosopher Marx believed that philosophy was the master key to leaving his mark upon the world, because if he could write down the true ideas, they would then teach people how to think correctly about the world, and then people would act correctly and build utopia.

3.4.2. Youth and French-Style Political Activist

After finishing his dissertation, Marx concluded that he had been wrong about philosophy being the master key. The world, Marx decided, was controlled not by German-style philosophical thought but by French-style political organization and action. Rather than write abstract treatises about Thought and Being, Marx decided, he needed to write works that would get a wide readership laying out to people the injustices and stupidities of the system, and then organize a mass movement to stage a revolution—like the great French Revolution of 1789-1793—to make a better world, one of equal rights, individual freedom, democracy, the abolition of the feudal system and of slavery.

And so in the early 1840s Marx became a journalist and a political activist. He wrote pro-democracy and pro-liberal articles for the *Rhineland News.* The Prussian government shut down the *Rhineland News* at the request of the Czar of Russia. He moved to Paris, and edited and published with his soon to be ex-friend Arnold Ruge a one-issue publication, the *French-German Yearbook,* the first article of which was Marx's *On the Jewish Question:* his first substantial publication. And in Paris Marx met Friedrich Engels, a rich young German whose family owned cotton mills both in Wuppertal, Germany, and Manchester, England.

Marx was certain that he was going to shake the world.

Consider that in 1847 Marx was one of fifteen members of the Communist Correspondence Committee of Brussels, which then decided to merge with the League of the Just—a group with 1000 members, perhaps, half in Paris and half in London. Marx could not afford to travel to London for the joint meeting at which the merger was accomplished. Somehow Friedrich Engels and he managed to wind up with the job of writing down the principles of their movement. And here is how he and Engels then, writing at the end of 1847, introduced their movement of 1015 to the world: here is the opening of the *Communist Manifesto:*

> A spectre is haunting Europe—the spectre of communism. All the powers of old Europe have entered into a holy alliance to exorcise this spectre: Pope and Tsar, Metternich and Guizot, French Radicals and German police-spies. Where is the party in opposition that has not been decried as communistic by its opponents in power? Where is the opposition that has not hurled back the branding reproach of communism, against the more advanced opposition parties, as well as against its reactionary adversaries? Two things result from this fact: I. Communism is already acknowledged by all European powers to be itself a power. II. It is high time that Communists should openly, in the face of the whole world, publish their views, their aims, their tendencies, and meet this nursery tale of the Spectre of Communism with a manifesto of the party itself…

Grandiose, much? But as best as we can tell, Marx and Engels did not see themselves as running a grift—not even a grift in the sense of exaggerating their powers so as to gain more readers and attention. As best we can tell, they meant every word.

It was after meeting Friedrich Engels—and probably as a result of that friendship and partnership—that Marx turned his attention that in spite of the victories of the great revolution in France and the advances of liberal politics in Britain the conditions of the mass of the people were getting worse, or at least no better: individual freedom, equality under the law, a more-extended voting franchise, the abolition of the feudal system, and so forth did wonderful things for the commercial and manufacturing rich and for the middle classes, but seemed to have no positive impact on the working classes—the mass of the people. Somehow, the workings of the economic system were turning things that ought to advance human freedom and prosperity into their opposite.

3.4.3. Age & British-Style Economist

And so Marx decided, just as he decided earlier that German-style philosophy was going down the wrong track, that French-style political activism for liberal democracy was going down the wrong track. The right track required figuring out how to fix the economy, and that required becoming a British-style political economist. So that was what Marx spent the rest of his life doing: pouring over works of political economy and Parliamentary reports on the condition of England, trying to make his kind of sense of them. The problem was that he was not very good at it. As Paul Samuelson wrote:

> From the viewpoint of pure economic theory, Karl Marx can be regarded as a minor post-Ricardian…. Marx… liked a good problem; but he did not labor over a labor theory of value in order to give us moderns scope to use matrix theory on the "transformation" problem. He wanted to have a theory of exploitation, and a basis for his prediction that capitalism would in some sense impoverish the workers and pave the way for revolution into a new stage of society. As the optimism of the American economist Henry Carey shows, a labor theory of value when combined with technological change is, on all but the most extreme assumptions, going to lead to a great increase in real wages and standards of living. So the element of exploitation had to be worked hard….
>
> Technical economics has little to do with Karl Marx's important role in the history of human thought.… Political economy in our sense of the word was the mere cap of Karl Marx's iceberg. Marx's bold economic or materialistic

> theory of history, his political theories of the class struggle, his transmutations of Hegelian philosophy have an importance for the historian of "ideas" that far transcends his facade of economics…. A billion people think his ideas are important; and for the historian of thought that fact makes them important...

3.4.4. The Layers Overlap

Marx's First Published Essay: You can see all three of these layers in Marx's first published essay, *On the Jewish Question.* There is the German-philosophical layer: interrogating the concept of what it means to be free. There is the French-activist layer: how to organize and legislate to attain freedom. And there is the British-economist layer: the real problems lie in the economy, and how the workings of the economy drive people to be cruel to each other in spite of society's overall prosperity. In *On the Jewish Question* Marx is pro-freedom. Jews are seeking equal rights. Many (including Marx's about to be ex-friend Bruno Bauer) claimed that Germany was a Christian country in which Jews had no standing to ask for equal rights until they joined it—that is, became Christian—and then work for separation of state from church. Marx disagreed, stating that Jews' status as Jews ought not to in any way be a bar to political emancipation.

But, Marx went on to write, political emancipation is not full human emancipation. In order to accomplish that, we need to transform the economy so that it no longer oppresses people.

Marx's Antisemitism: And then Marx's argument becomes unfortunate, because the way that the economy oppresses people, Marx says, is that it leads them to behave like he says Jews behave:

> Let us consider the actual, worldly Jew–not the [observant] Sabbath Jew, as Bauer does, but the everyday Jew.

> Let us not look for the secret of the Jew in his religion, but let us look for the secret of his religion in the real Jew.
>
> What is the secular basis of Judaism? Practical need, self-interest. What is the worldly religion of the Jew? Huckstering. What is his worldly God? Money.
>
> Very well then! Emancipation from huckstering and money, consequently from practical, real Judaism, would be the self-emancipation of our time.
>
> An organization of society which would abolish the preconditions for huckstering, and therefore the possibility of huckstering, would make the Jew impossible. His religious consciousness would be dissipated like a thin haze in the real, vital air of society. On the other hand, if the Jew recognizes that this practical nature of his is futile and works to abolish it, he extricates himself from his previous development and works for human emancipation as such and turns against the supreme practical expression of human self-estrangement…

This was not a phrase Marx outgrew. A decade and a half later, in the mid 1850s, we find him writing things like:

> Thus we find every tyrant backed by a Jew, as is every pope by a Jesuit. In truth, the cravings of oppressors would be hopeless, and the practicability of war out of the question, if there were not an army of Jesuits to smother thought and a handful of Jews to ransack pockets…

Yet by far the majority of the big bankers of mid-nineteenth century Europe were Christians. If he were around today, Marx would be one of those people who, when he wants to say something negative about bankers, will always say "Goldman Sachs" and never say "Bank of America" or "J.P. Morgan" or "Credit Suisse". And the correspondence between Marx and Engels in which they express their envy of fellow German socialist Ferdinand Lassalle is just… weird. Simon Sebag Montefiore summarizes:

> Both… were wildly jealous of Lasslle, who was in many ways what they wished to be: a political star, bon vivant… showman… lover… supported financially by his mistress, Countess von Hatzfeld…. Lassalle recognized Marx's talent… helping him… get his work published…. Marx and Engles… repaid the favor with an endless stream of racist epithets… "stupid Yid"… "Jewboy"… "n——r"…. Lassalle… affair with a young woman engaged to a Wallachian prince whom he foolishly challenged to a duel. Lassalle was killed. Marx and Engels were astonished by the rise and fall of this flamboyant meteor…. Engels's reflections on Lassalle's intellectual and sexual power are particularly striking: "she didn't want his beautiful mind but his Jewish cock".

Marx was soon going to change his language away from *On the Jewish Question's* claim that the big problem was that in market society all human beings acted like Jews: true human freedom would be thought of as the freedom of humanity from domination by the *bourgeoisie,* domination by the *business class,* rather than freedom from what Marx called "Jewishness", and from an economic system that pushed people to act in what Marx called a "Jewish" way.

4. Karl Marx's Analytical System

4.1. On Reading *Capital*

4.1.1. Why Are We Making You Do This?

Marx spent the next 20 years of his life after writing *On the Jewish Question* trying to figure out the economics, and then write it down. And in 1867 he published *Capital: A Critique of Political Economy.* (Or, at least, he published volume I. He died before he finished volumes II and III to his satisfaction.) *Capital* is a big and difficult book. And we have set you to read it in order to gain a sense of what answers Marx arrived at: what he concluded and why, and whether his conclusions are correct.

Why have we set you to read it? We could, after all, digest it into twenty bullet points and say "these will be on the exam".

4.1.2. The Skill of Reading Difficult Books

One answer is that the skill of reading difficult books is something we have to teach. The labor economists tell us that going to Berkeley, or to other elite American universities, is very good for you not just in terms of making you a more knowledgeable, thoughtful, and well-rounded person, but also in terms of inculcating you a lot of skills that give you many, many extra life choices. Chief among these skills are: presenting yourself in English in person; presenting yourself in English on paper; and figuring out how to get information out of all the written English words that appear before your eyes. Thus one thing we are here to do is to teach the valuable skill of reading hard and difficult but valuable books. And reading hard and difficult but valuable books with us on the teaching staff coaching you through the process is the best way to do that.

A difficult book has an author, who has something complex and non-transparent and important to say. The author has, in their mind's eye, a reader. If you are going to understand the author, you need first to become that reader—to become the reader whom the author hopes to convince, and then watch the argument flow by while you yourself stand back thinking: does this really make sense. Odds are that if you cannot understand a passage well enough to figure out whether it is right or wrong, and if it is wrong how it is wrong, you have not yet made yourself over into the right kind of reader to make sense of the book. Most reading, after all, takes place between the ears.

A good rule of thumb when trying to make sense of an important author who has written a big, difficult book is to follow this strategy:

1. Read through the book, taking notes.

2. “Steelman” the argument, reworking it so that you find it as convincing and clear as you can possibly make it.
3. Find someone else—usually a roommate—and bore them to death by making them listen to you set out your “steelmanned” version of the argument.
4. Figure out what the weak points of this strongest-possible argument might be.
5. Decide what you think of the whole.
6. Then comes the task of cementing your interpretation, your *reading,* into your mind so that it becomes part of your intellectual panoply for the future. More on that—on review, “studying”, preparing for the exam, &c., anon.

4.1.3. The Value of Intellectual Landmarks

Note that we are reading Marx’s *Capital* not because Marx was a sole unique genius and *Capital* the key to the riddle of history. This isn’t a Holy Writ. This isn’t a Sacred Text. As I have written elsewhere: The idea that the best way to understand the political economy of the 1970s is through intensive, group, line-by-line study of an unfinished, inconsistent, and ambiguous text first drafted in the 1850s by a very smart, sometimes far-sighted, but definitely not divine human being--that that idea is already a delusion peculiar to those who were a little too good in school in seeking truths from reading books rather than seeking truths from facts. It is not fully sane.

We are reading *Capital* because its arguments have resonated with a great many people over the years, have been judged as true or likely to be true by millions, and so gather together in one place a powerful current of ideas and claims that (a) might be true, (b) have been believed, and so (c) have been very influential. This is a floating marker buoy thrown into a broad social-intellectual current, and understanding where the marker bouy goes is the best way to gain an understanding of the current.

4.2. *Capital,* Parts I Through VI

Let me provide you with a brief guide in the form of my reactions on my last reading through *Capital*. And, truth by told, if I had made up the syllabus I would have assigned Parts VII and all but the last chapter of Part VIII, and dipped into Parts I-VI only for chapter 10, The Working Day, and a few selected passages. In place of the bulk of Parts I-VI, I would have substituted Marx's 1847 essay *Wage Labor and Capital;* Marx and Engels's 1848 *The Communist Manifesto;* Marx's early 1850s study of French politics and political economy, *The Eighteenth Brumaire of Louis Bonaparte*; and his late-in-life *Critique of the Gotha Program.*

So here I am going to rush through Parts I through VI of *Capital.* I do not have time now to do more. Plus, with the exception of Chapter 10, The Working Day, which is great and which is by itself worth the price of the book, these pieces of the book do not sing to me.

4.2.1. Part I: Commodities and Money

The start of the book is, at bottom, a Hegelian German-philosophical argument for the truth of something called the labor theory of value: that the *value* of a commodity is the human *labor* that it took, directly and indirectly, to produce it. If you were a Hegelian German philosopher you might well find that argument somewhat convincing. But you are not. And in fact there are no Hegelian German philosophers at all: the consensus of philosophers is that Hegel is an important figure in the history of philosophy, but that his concepts and frameworks have little worthwhile bite.

Moreover, the labor theory of value is wrong, or at least profoundly unhelpful for Marx.

It involved him in spending years of his life trying to resolve all kinds of problems—the reduction problem, the transformation problem, how to characterize the capital-intensity of the economy—that were at best time-wasting sinks of energy and at worst led to what were in retrospect obvious analytical errors.

I get little out of Part I. But maybe I have not remade myself into the right kind of reader?

4.2.2. Part II: Transformation of Money into Capital

"Capital" as Not Things But a Process: As the book moves out of Marx's Hegelian German-philosopher mode it becomes, I think, much more promising. People typically think of "capital" as stuff: machines, buildings, inventories, and so on. But, Marx argues—I think correctly—that capital is better thought of as a particular form of social power: wealth directing human activity by being itself directed toward acquiring more wealth. Capital is money that is in the business of making more money by being used to buy and thus be transformed into commodities, and then back into more money. And, Marx argues, the most important commodity that capital is transformed into in its every-amplifying circular flow is labor-power, because the only reason that the system can produce profits on average—that the amount of capital can grow in general—is that the value of labor-power is less than the value of the commodities that that labor-power the capitalist purchases then creates.

But it takes Marx three chapters to say that.

Antisemitism Again: There is one piece of Part II that I should not pass over. It is:

> The capitalist knows that all commodities, however tattered they may look, or however badly they may smell, are in faith and in truth money, are by

> nature circumcised Jews, and, what is more, a wonderful means for making still more money out of money…

What are “the Jews" doing here? Yep. This is a leftover from 1842, from the days when Marx and his soon to be ex-friends Moses Hess and Heinrich Heine were attacking “Jewishness” as the source of evil—cf. Heinrich Heine’s denunciation of his own city of Hamburg a:

> a city of hagglers populated entirely by Jews, some baptized (I call all Hamburg’s inhabitants Jews)…

It’s people who behave like how Heine has been taught to think Jews behave who are the subject of his ire. Still, not at all a good look.

4.2.3. Part III: Production of Absolute Surplus-Value

Formal Equality Masking Substantive Inequality and Oppression: Here Marx tries to peel back the mask that conventional liberal ideology places over the face of the capitalist market economy. The market economy pretends that it is a realm of freedom: everyone is independent, everyone is unbound by ties of slavery and serfdom, everyone owns what he or she owns, everyone produces, buys, and sells, everyone does so an an equal legal footing…

And yet..., and yet..., and yet...

Marx tries to lay out how such a formally-equal form of social organization like the market economy nevertheless produces massive and mammoth inequality. He does so by diving into the working day and the labor process: How is it that the value of labor-power is less than the value of the commodities that that labor-power the capitalist purchases then creates? Why doesn't the worker just work for themself and so reap the full value of the commodities they produce as the wage for their labor power?

However, Marx gets lost here in the swamp of the labor theory of value. And so the analytical apparatus he builds creaks. It is, I think, simply not up to the task.

Sources of Capitalist Social Power: I think, however, that it is easy to rescue Marx's argument by throwing his labor theory of value overboard and simply looking at average or market equilibrium prices. It is a fact that those without money have little social power. It is a fact that those without money have little ability to delay their purchases or sales in the hope that a better bargain will be. It is a fact that those who are desperate to buy or sell get a bad bargain. And it is a fact that workers are desperate to sell their labor, and then desperate to buy commodities now: they and their families have to eat.

But why can't workers just work for themselves? Why can't they be independent contractors, and so capture for themselves the surplus the capitalist exacts from the fact that workers are desperate to work and so will work for less than the value of what they will produce because they need money now? They can—if they have enough of a stake to tied themselves over. But as time passes and as production becomes more and more capital-intensive and value chains become longer and longer, the size of the stake needed to remain independent grows. Some succeed in maintaining the needed stake, and even enlarging it: they maintain a precarious independence or become capitalists themselves, respectively. Most, from bad luck, imprudence, or a failure to keep pace with increasing scale, fall into the *proletariat*, and so have to strike bad bargains with employers in which they capture little of the surplus created in the process of production.

That, at least, would be a coherent theoretical argument.

Marx Wrote at the End of an Era of Wage Stagnation: It would run into the empirical problem that the wages of labor today in the Global North are 15 times higher than they were two centuries ago, and that in the world as a whole only 9% of people earn too little in the global market to escape from extreme poverty while 80% were in extreme poverty 200 years ago. But it would be a coherent argument. And it would accurately describe the world of an Industrial Revolution with little or no increase in real wages that Marx had seen in his life up to 1867. (Albeit that phase of the world economy was about to end: wages, worldwide, were then about to start rocketing upward.)

Nassau Senior's "Last Hour": Please, I ask you, do not miss the last part of chapter 9: Section 3: Senior's "Last Hour". Marx's evisceration of the argument in support of the cotton manufacturers of Britain by British classical economist Nassau Senior is a thing of beauty. And it was the source for the first economics article I ever wrote that would up published.

The Length of the Working Day: And read carefully and reread chapter 10. In chapter 10 the book descends from German Hegelian-philosophical and British classical-economic abstractions and theory into the condition fo the working class in England in the middle of the nineteenth century, and the book becomes great.

Creaky Abstractions Return: But in chapter 11 the abstractions and the creaky analytical apparatus are back.

Marx then finds himself on the defensive. The profits that different manufacturers realize have nothing to do with the amounts of surplus value that Marx calculates different manufacturers extract from their workers. Why are the profits of one manufacturer who has few workers and so can extract no surplus value from them just as high as the profits of another manufacturer sweating surplus value out of tens of thousands? How I this consistent with Marx's claim that profits in some sense *are,* or are the surface manifestation of the deep reality that is surplus value?

This is a natural question to ask. Asking it very much puts Marx very much on the defensive. So we find passages like:

> The law... of surplus-value produced... clearly contradicts all experience based on appearance.... A cotton spinner, who... employs... little variable capital, does not, on account of this, pocket less profit or surplus-value than a baker... [with] much variable... capital. For the solution of this apparent contradiction, many intermediate terms are as yet wanted, as from the standpoint of elementary algebra many intermediate terms are wanted to understand that 0/0 may represent an actual magnitude.... It will be seen later how the school of Ricardo has come to grief over this stumbling block. Vulgar economy which, indeed, "has really learnt nothing," here as everywhere sticks to appearances in opposition to the law which regulates and explains them. In opposition to Spinoza, it believes that "ignorance is a sufficient reason"...

To paraphrase, Marx is here saying: My theory says the sun rises in the west, but you say it rises in the east. You are confused by the surface appearance of things. I have a deeper understanding, and I will present my answer later.

He never did present an explanation.

He did realize that there was something wrong here. In his 1865 *Value, Price, and Profit* lecture, he talks about how when:

> supply and demand equilibrate each other, and therefore cease to act, the market price of a commodity coincides with its real value, with the standard price round which its market prices oscillate…

But then he got cautious: Later on in the text he was not quite willing to say that the average price equals the natural or standard price "around which its market prices oscillate" *equals* the labor value, even though that is what the comma in "value, with" in the quotation above very strongly implies. He was only willing to say that "taking the average of the cycle, the market prices of commodities are regulated by their values", which are themselves "exclusively determined by the total [socially-necessary quality-adjusted] quantities of labour fixed in them…"

He knew he was in trouble. He thought that he would be able to patch it up—to fix it. He died.

As I said, the analytical apparatus creaks, and is not up to the task.

4.2.4. Part IV: Production of Relative Surplus-Value

No, you are not caught in some Groundhog Day-like time loop. If this sounds to you like he is starting to repeat himself, you are right. And if you ask what makes some surplus value "relative" and other surplus value "absolute", you will not get a clear answer.

I think that when the working day is expanded or the standard of living is lowered, that is an increase in absolute surplus value. I think that when productivity rises, that is an increase in relative surplus value. I would have called Part III "The Working Day and Surplus Value" and Part IV "Worker Productivity and Surplus Value".

Deskilling: But do not skip or skim—too much. The analytical core of this part is an important insight: The market economy produces enormous incentives to innovate in technology and to then invest in labor-saving machinery in order to raise productivity:

> A most furious combat rages between the capitalists for their individual share in the market... proportional to the cheapness of the product.... This struggle gives rise to in the use of improved machinery for replacing labour-power... the introduction of new methods of production... [and] a forcible reduction of wages beneath the value of labour-power is attempted...

And this pressure has a powerful impact in potentially "deskilling" workers. Marx quotes Adam Smith here:

> The understandings of the greater part of men are necessarily formed by their ordinary employments. The man whose whole life is spent in performing a few simple operations … has no occasion to exert his understanding … He generally becomes as stupid and ignorant as it is possible for a human creature to become.... The uniformity of his stationary life naturally corrupts the courage of his mind … It corrupts even the activity of his body and renders him incapable of exerting his strength with vigour and perseverance in any other employments than that to which he has been bred. His dexterity at his own particular trade seems in this manner to be acquired at the expense of his intellectual, social, and martial virtues. But in every improved and civilized society, this is the state into which the labouring poor, that is, the great body of the people, must necessarily fall...

Hence Adam Smith calls for a major deviation from *laissez faire* in favor of publicly-funded and mandatory public education:

> The common people... have little time to spare for education. Their parents can scarce afford to maintain them.... As soon as they are able to work they must apply to some trade by which they can earn their subsistence.... But though the common people cannot, in any civilised society, be so well instructed as people of some rank and fortune, the most essential parts of education, however, to read, write, and account, can be acquired at so early a period of life that the greater part even of those who are to be bred to the lowest occupations have time to acquire them before they can be employed in those occupations. For a very small expense the public can facilitate, can encourage, and can even impose upon almost the whole body of the people the necessity of acquiring those most essential parts of education... by establishing in every parish or district a little school, where children may be taught for a reward so moderate that even a common labourer may afford it; the master being partly, but not wholly, paid by the public.... It was in this manner, by facilitating the acquisition of their military and gymnastic exercises, by encouraging it, and even by imposing upon the whole body of the people the necessity of learning those exercises, that the Greek and Roman republics maintained the martial spirit of their respective citizens....

> The gross ignorance and stupidity which, in a civilised society, seem so frequently to benumb the understandings of all the inferior ranks of people... [leaves them] mutilated and deformed in... [an] essential part of the character of human nature. Though the state was to derive no advantage from the instruction of the inferior ranks of people, it would still deserve its attention that they should not be altogether uninstructed. The state, however, derives no inconsiderable advantage from their instruction. The more they are instructed the less liable they are to the delusions of enthusiasm and superstition.... An instructed and intelligent people, besides, are always more decent and orderly.... They feel themselves, each individually, more respectable and more likely to obtain the respect of their lawful superiors.... They are more disposed to examine, and more capable of seeing through, the interested complaints of faction and sedition.... In free countries, where the safety of government depends very much upon the favourable judgment which the people may form of its conduct, it must surely be of the highest importance that they should not be disposed to judge rashly or capriciously...

I dare say you might well be able to convince Adam Smith, were he here with us today, to ban cable news, and Facebook.

But to return to Marx and to the cause of "deskilling", rather than attempts to counteract its effects, we have Marx:

> Along with the tool, the skill of the worker in handling it passes over to the machine. The capabilities of the tool are emancipated from the restraints inseparable from human labour-power. This destroys the technical foundation on which the division of labour in manufacture was based.… In so far as the division of labour reappears in the factory, it takes the form primarily of a distribution of workers among the specialized machines.... In handicrafts and manufacture, the worker makes use of a tool; in the factory, the machine makes use of him. There the movements of the instrument of labour proceed from him, here it is the movements of the machine that he must follow.... In the factory we have a lifeless mechanism... independent of the workers... incorporated into it as its living appendages.… The machine...

> deprives the work itself of all content … [The] conditions of work employ the worker...

Capitalism as a Vampire: And so innovation further diminishes workers' power to strike a good wage bargain, in chief a reasonable working day. Dead Labor—capital—or rather Undead Labor—fastens upon Living Labor like a vampire sucking his or her blood:

> Partly by placing at the capitalists' disposal new strata of the working class previously inaccessible to him, partly by setting free the workers it supplants, machinery produces a surplus working population... compelled to submit to the dictates of capital.... Machinery sweeps away every moral and natural restriction on the length of the working day.... The most powerful instrument for reducing labour-time suffers a dialectical inversion and becomes the most unfailing means for turning the whole lifetime of the worker and his family into labour-time at capital's disposal for its own valorization.... Dead labour... dominates and soaks up living labour-power...

There is even, Marx claims, a large downside to laws to protect workers, to raise minimum wages, and to shorten the maximum working day. Such laws relatively disadvantage small-scale producers, and drive them into bankruptcy:

> If the general extension of factory legislation to all trades for the purpose of protecting the working class both in mind and body has become inevitable, on the other hand, as we have already pointed out, that extension hastens on the general conversion of numerous isolated small industries into a few combined industries carried on upon a large scale; it therefore accelerates the concentration of capital and the exclusive predominance of the factory system. It destroys both the ancient and the transitional forms behind which the dominion of capital is still partially hidden, and replaces them with a dominion which is direct and unconcealed...

What is worse:

> The immense impetus given to technical improvement by the limitation and regulation of the working day is to increase the anarchy and the proneness to catastrophe of capitalist production as a whole, the intensity of labour, and the competition of machinery with the worker. By the destruction of small-scale and domestic industries it destroys the last resorts of the 'redundant population', thereby removing what was previously a safety-valve for the whole social mechanism...

"The Worse, the Better": But there is a "the worse, the better" apocalyptic silver lining here:

> By maturing the material conditions and the social combination of the process of production, it matures the contradictions and antagonisms of the capitalist form of that process, and thereby ripens both the elements for forming a new society and the forces tending towards the overthrow of the old one...

I tend to be very very suspicious of "the worse, the better" arguments.

Karl Marx's Theory of History: Note also that it is in this Part IV of *Capital* that we get Karl Marx's big-picture theory of history and political economy:

> My view is that each particular mode of production, and the relations of production corresponding to it at each given moment, in short 'the economic structure of society', is 'the real foundation, on which arises a legal and political superstructure and to which correspond definite forms of social consciousness' [mental conceptions, if you like], and that 'the mode of production of material life conditions the general process of social, political, and intellectual life...

And it is in this part of *Capital* that we have get a very brief glimpse into Marx's speculations about the business cycle:

> The factory system's tremendous capacity for expanding with sudden immense leaps, and its dependence on the world market, necessarily give

> rise to the following cycle: feverish production, a consequent glut on the market, then a contraction of the market, which causes production to be crippled. The life of industry becomes a series of periods of moderate activity, prosperity, over-production, crisis and stagnation. The uncertainty and instability to which machinery subjects the employment, and consequently the living conditions, of the workers becomes a normal state of affairs…

4.2.5. Part V: Absolute & Relative Surplus-Value

Here Marx is indeed repeating himself. You *are* trapped in some Groundhog Day-like scenario. This time through reading these chapters, my major thought was: Wouldn't Engels pay for an editor? It goes over ground Marx has already gone over. And it loses itself in byways that seem pointless to me.

For example, what is the usefulness of this?:

> From one standpoint, any distinction between absolute and relative surplus-value appears illusory. Relative surplus-value is absolute, since it compels the absolute prolongation of the working-day beyond the labour-time necessary to the existence of the labourer himself. Absolute surplus-value is relative, since it makes necessary such a development of the productiveness of labour, as will allow of the necessary labour-time being confined to a portion of the working-day. But if we keep in mind the behaviour of surplus-value, this appearance of identity vanishes. Once the capitalist mode of production is established and become general, the difference between absolute and relative surplus-value makes itself felt, whenever there is a question of raising the rate of surplus-value. Assuming that labour-power is paid for at its value, we are confronted by this alternative: given the productiveness of labour and its normal intensity, the rate of surplus-value can be raised only by the actual prolongation of the working-day; on the other hand, given the length of the working-day, that rise can be effected only by a change in the relative magnitudes of the components of the working-day, viz., necessary labour and surplus-labour; a change which, if the wages are not to fall below the value of labour-power, presupposes a change either in the productiveness or in the intensity of the labour…

Why is it not better to say that the rate of profit (or of surplus-value extraction) depends on five things; the length of the working day, the productiveness of labor, the intensity of labor, the cost of worker subsistence, and the deviation of the wage level from the cost of subsistence? What is gained by calling some of these 'relative' and the others 'absolute' as it is indeed true that, as Marx says: 'relative surplus-value is absolute… [and] absolute surplus-value is relative'?

Perhaps there is a new nugget in Chapter 16 of this Part V. Marx wishes to establish that David Ricardo and John Stuart Mill have blinded themselves by confusing things that are present only under the capitalist mode of production with things that are always true of the human division of labor, and so confuse themselves. But Ricardo and Mill—and I—would respond: Yes, these things are only apparent and obvious under the capitalist mode of production, but they are always true in the sense that they are constraints on and opportunities arising from the construction of a societal division of labor under conditions of scarcity; it is just that under other systems of arranging the societal division of labor these constraints and opportunities are masked by how they are embedded in the networks of obligation and control that make up non-market societies.

This is an argument Marx ought to have wrestled with. But he did not.

And much of Part V is simply confused: Marx disappears into the swamp that is the labor theory of value, and criticizes other economists for not getting lost in the swamp in the same place he does.

4.2.6. Part VI: Wages

Once again, I find Marx in need of an editor: little said in a substantial space. However, chapter 22, on differences across nations in the level of wages, seemed to me to be of interest. Marx says that looking across countries there are those with:

> more intense national labour… more productive nation[s]…. In proportion as capitalist production is developed in a country, in the same proportion do the national intensity and productivity of labour there rise above the international level…. It will be found, frequently, that the daily or weekly, &tc., wage in the first nation is higher than in the second, whilst the relative price of labour, i.e., the price of labour as compared both with surplus-value and with the value of the product, stands higher in the second than in the first…

So that a higher rate of exploitation, a higher rate of productivity, and a higher value of real wages in terms of the commodities they can buy go together. Comparing Russia to England, Marx finds:

> Despite all over-work, continued day and night, despite the most shameful under-payment of the workpeople, Russian manufacture manages to vegetate only by prohibition of foreign competition…

English cotton mills pay their workers more and extract more profits and surplus value out of them. Russian cotton mills pay their workers less, over-work them more, and yet would fail to extract any profits or surplus value if not for government subsidies via tariffs. The more exploited are workers in Marx's extraction-of-surplus-value sense, the better off there workers are.

This should have given Marx pause: if it is true looking from less-capitalistic to more-capitalistic nations that higher rates of exploitation and better-fed and better-housed workers go together, might it not also be true looking over time from less-capitalistic to more-capitalistic eras that we see the same? This should have led Marx to rethink. It did not.

4.2.7. Summing Up Parts I-VI

In summary, with the exception of Chapter 10, The Working Day, Parts I-VI of *Capital* do not sing for me. Confused, and where not confused usually wrong, is my judgment.

Part I makes Hegelian philosophical intellectual moves to construct an argument for the labor theory of value, an argument which I do not see as valid and which leads to a false conclusion. Part II makes the important point that capital is not a thing but rather a set of relationships or processes that generate a certain kind of economy with its patterns of production, distribution, and dynamic evolution. But this seems obvious to me: it is something I know in my bones. Marx presents it with what seems to me to be a lot of fluff and mystification.

Parts III-VI develop and use his analytical framework and, with the exception of chapter 10 on the working day, I find the framework creaky, inadequate, and often misleading: labor theory of value, rates of surplus value, organic composition of capital, and hidden behind the curtain the unsolved and unsolvable analytical problems of reduction and transformation.

It is only in Part VII that the book begins to sing to me.

4.3. Part VII: The Accumulation of Capital

4.3.1. The *Bourgeoisie* Is the Ruling Class

This is where the book starts to sing. The first important thing I get out of Part VII is that, to quote from the *Communist Manifesto*, “the executive of the modern state is a committee for managing the affairs of the “business class”. Wealth speaks loudly, and influences the government to arrange things for the convenience of wealth—to keep wages low, and workers available.

Marx quotes a protest from *The Times* of London against the demands that capital made upon Britain in 1863. The editors of *The Times* wrote, bringing the snark:

> Mr. Edmund Potter is so impressed with the exceptional and supreme importance of the cotton masters that, in order to preserve this class and perpetuate their profession, he would keep half a million of the labouring class confined in a great moral workhouse… 'Is it worth while keeping the machinery in order?' again asks Mr. Potter…. We must confess that we do not think it 'worth while,' or even possible, to keep the human machinery in order-that is to shut it up and keep it oiled till it is wanted. Human machinery will rust under inaction, oil and rub it as you may. Moreover, the human machinery will, as we have just seen, get the steam up of its own accord, and burst or run amuck…. The time is come when the great public opinion of these islands must operate to save this 'working power' from those who would deal with it as they would deal with iron, and coal, and cotton...

Marx claims that *The Times* was only joking:

> *The Times'* article was only a *jeu d'esprit*. The "great public opinion" was, in fact, of Mr. Potter's opinion, that the factory operatives are part of the movable fittings of a factory. Their emigration was prevented. They were locked up in that "moral workhouse," the cotton districts, and they form, as before, "the strength" of the cotton manufacturers of Lancashire...

(In fact, the *Times* was not joking: it was representing a conservative viewpoint, and attempting to construct an alliance in which the workers and the aristocracy would tax the *business class* to boost the living standards of the working class and the social power of the aristocracy.)

But the message is, I think, clear and correct. It is: the bourgeoisie will use it to control all of the state to keep wages low enough the profits are high, but it is these high profits that then flow back into the stock of capital and give the business class its dominance over society. This piece of chapter 23 is, in a nutshell, the argument of the book, *Capital in the Twenty-First*

Century, with which Thomas Piketty made a splash five years ago.

4.3.2. Alienation: What We Create then Masters Us

Plus this section on accumulation makes the very important Marxist point. The point is that, under capitalism, things are inverted: rather than people riding the economy to achieve their purposes, the economy—things—are in the saddle, and riding humanity. Capital is made up of things the workers produce. It is what humans make. It is their creation. It is their work. But what the workers produce then does not advance their interests, or make them happy. Instead, what the workers have produced somehow escapes from human control. It then imposes itself on people, and bosses them around.

Note that it is not that the capitalists steal the freedom for themselves.The capitalists do not have any freedom either. They have to act like capitalists: push wages down, speed up the assembly line, and reinvest their profits; and if they do not, then they fall behind, become uncompetitive, go bankrupt, and vanish as they become proletarians as well.

This is Marx's theory of alienation. Marx thinks that you ought to be a human being in control of your life. The things you make are things that help and assist you. But instead, somehow, under the rule of the bourgeoisie, the things you make become alien powers outside yourself and then control and dominate.

There is a joke category called the Russian reversal: “In America, everyone watches television; in Soviet Russia. television watches you.” This is, in a nutshell, Marx's concept of alienation. Capital is not just unfair and unequal, it is also inhuman. It robs people of the freedom that they ought to have by virtue of their productivity.

4.3.3. The Capitalist System Worsens Over Time

Remember, always, to Marx, capitalism is a system. It works, in the sense that it carries itself forward into the future:

> Therefore, the worker himself constantly produces objective wealth, in the form of capital, an alien power that dominates and exploits him; and the capitalist just as constantly produces labour-power, in the form of a subjective source of wealth which is abstract, exists merely in the physical body of the worker, and is separated from its own means of objectification and realization; in short, the capitalist produces the worker as a wage-labourer. This incessant reproduction, this perpetuation of the worker, is the absolutely necessary condition for capitalist production.… The capitalist process of production, therefore, seen as a total, connected process, i.e. a process of reproduction, produces not only commodities, not only surplus-value, but it also produces and reproduces the capital-relation itself; on the one hand the capitalist, on the other the wage-labourer...

As the system carries itself forward into the future, it changes. It, Marx argues, becomes even worse and more destructive. The gap between what society could be given the magical productivity of human labor augmented by science and technology and what society is grows beyond measure.

Accumulation of capital leads to innovation and the invention of new kinds of more productive machines. The capital intensity of production rises. And as the capital intensity of production rises, downward pressure on workers' wages rises as well.

Marx thinks he has an airtight argument that this will be so:

> Since the demand for labour is determined not by the extent of the total capital but by its variable constituent alone, that demand falls progressively with the growth of the total capital, instead of rising in proportion to it, as was previously assumed. It falls relatively to the magnitude of the total capital, and at an accelerated rate, as this magnitude increases. With the

> growth of the total capital, its variable constituent, the labour incorporated in it, does admittedly increase, but in a constantly diminishing proportion... constantly produces, and produces indeed in direct relation with its own energy and extent, a relatively redundant working population, i.e. a population which is superfluous to capital's average requirements for its own valorization, and is therefore a surplus population…

Marx believes that machinery is not a complement to but a substitute for labor. Here, once again, Marx has been betrayed by the labor theory of value. The century and a half after his writing of *Capital* has seen wages rise fifteen fold. It has seen inequality rise, fall, and more recently rise again. But even now, at our current inequality peak, it is only back to the level it was in mid-nineteenth century Britain here in the United States, and is lower elsewhere in the global north.

Not a Human Logic, But Its Own Mad Logic: Why does the system work as it carries itself into the future—as it "reproduces itself", as Marx likes to say? The rapid advances of science and technology on the one hand in the scope of the collective social division of labor mediated by the market on the other greatly increase the productive power of humanity. Why are these increased productive powers turned not to the greater good but to making greater evils? Marx has an answer: His answer is that the wishes and wills of humans have no purchase once the capitalist machine has started rolling. People must fit into their slots, and do what their slot in the system requires that they do. Workers who do not sacrifice their essential humanity to a hard, dehumanizing, and low-paying job find themselves and their families at deaths door. Capitalists who do not devote every moment to raising productivity, pushing down wages, and reinvesting their larger profits to increase their scale of operations faster find themselves outcompeted. They wind up going bankrupt–and then their children join the working class proletariat. Thus, according to the principle that the purpose of a system is what it does, the purpose of the capitalist system is maximum investment and capital accumulation:

> Accumulation for the sake of accumulation, production for the sake of production: this was the formula in which classical economics expressed the historical mission of the bourgeoisie in the period of its domination. Not for one instant did it deceive itself over the nature of wealth's birth-pangs. But what use is it to lament a historical necessity? If, in the eyes of classical economics, the proletarian is merely a machine for the production of surplus-value, the capitalist too is merely a machine for the transformation of this surplus-value into surplus capital…

Mark thinks he has an iron and water-tight argument that this process of investment in capital accumulation greatly raises the stock of instruments of production that workers use—no, in capitalist factories as Marx sees them workers do not utilize machines, instead, machines use up workers—while reducing the funds available to be spent paying the wages of the workers:

> The law of the progressive growth of the constant part of capital in comparison with the variable part is confirmed at every step … by the comparative analysis of the prices of commodities, whether we compare different economic epochs or different nations in the same epoch. The relative magnitude of the part of the price which represents the value of the means of production, or the constant part of the capital, is in direct proportion to the progress of accumulation, whereas the relative magnitude of the other part of the price, which represents the variable part of the capital, or the payment made for labour, is in inverse proportion to the progress of accumulation…

Thus, for Marx, it is inconceivable that there might be a permanent, durable increase in the average wage level as the process of capital accumulation proceeds and as capitalism-the-sytem carries itself forward into the future. Supply-and-demand could not, and marks his analysis, lead to such an outcome, for supply-and-demand work in the context of a ever-growing surplus population that makes up an industrial reserve army of unemployed and hungry-for-jobs workers:

> The industrial reserve army, during the periods of stagnation and average prosperity, weighs down the active army of workers; during the periods of over-production and feverish activity, it puts a curb on their pretensions. The relative surplus population is therefore the background against which the law of the demand and supply of labour does its work. It confines the field of action of this law to the limits absolutely convenient to capital's drive to exploit and dominate the workers…

In fact, for Marx, it is inconceivable the average wage level will manage to stay above bare subsistence:

> The most diverse machines are now applied to the manufacture of the machines themselves…. The labourers employed in machine factories can but play the role of very stupid machines alongside of the highly ingenious machines…. To sum up: the more productive capital grows, the more it extends the division of labour and the application of machinery; the more the division of labour and the application of machinery extend, the more does competition extend among the workers, the more do their wages shrink together…. A mass of small business men and of people living upon the interest of their capitals is precipitated into the ranks of the working class…. Thus the forest of outstretched arms, begging for work, grows ever thicker, while the arms themselves grow every leaner…

Thus, as Mark sees it, the more powerful and productive new workers become, the more dominated and exploited workers become. :Workers become not men but fragments of men: hands, no more than appendages to the machine. And working to make things becomes not a source of joy at accomplishment but into an alienated torment:

> We saw in Part IV, when analysing the production of relative surplus-value, that within the capitalist system all methods for raising the social productivity of labour are put into effect at the cost of the individual worker; that all means for the development of production undergo a dialectical inversion so that they become means of domination and exploitation of the producers; they distort the worker into a fragment of a man, they degrade him to the level of an appendage of a machine, they

> destroy the actual content of his labour by turning it into a torment; they alienate…

In Marx's analytical framework, wealth, productivity, and misery all grow together. Greater productivity produces greater wealth. And then greater wealth produces greater misery, because under capitalism wealth is used to dominate and, if the capitalist is going to survive, he must use his power to dominate to push down wages and worsen working conditions so that he can not consume but invest his profits to produce an even greater scale of production and even greater productivity:

> In proportion as capital accumulates, the situation of the worker, be his payment high or low, must grow worse. Finally, the law which always holds the relative surplus population or industrial reserve army in equilibrium with the extent and energy of accumulation rivets the worker to capital more firmly than the wedges of Hephaestus held Prometheus to the rock. It makes an accumulation of misery a necessary condition, corresponding to the accumulation of wealth. Accumulation of wealth at one pole is, therefore, at the same time accumulation of misery, the torment of labour, slavery, ignorance, brutalization and moral degradation at the opposite pole, i.e. on the side of the class that produces its own product as capital...

What is going to bring an end to this mad process?

4.4. Part VIII: Primitive Accumulation

At the end of Part VII, Marx had completed his analysis of how the purpose of capitalism-as-a-system was simply capital accumulation, which produced ever more productivity, wealth, and misery, all three growing together, and all three growing together at an ever-increasing pace. The natural next step in Marx's argument would be for him to lay out what he forecasts will bring this mad sorcerers-apprentice process to an end.

That, however is not what we get. We turn to the next page, and its title of "Part VIII: Primitive Accumulation" tells us that Marx is now jumping back to the historical beginnings of the process of capitalist capital accumulation.

He needed an editor.

Fortunately, this part is misnamed. "Primitive" accumulation is supposed to be about how the juggernaut of capitalism initially gets rolling. This part starts out being about that. But it then moves on, and is in its later stages also about much, much more.

4.4.1. "Primitive Accumulation" Proper

Part VIII does start out with its expressed topic. It hammers home the difference between the myth that the capitalist tell themselves and others, and the reality with which the system came into being. The myth is as follows, as Marx brings the snark:

> Its origin is supposed to be.… In times long gone by there were two sorts of people; one, the diligent, intelligent, and, above all, frugal elite; the other, lazy rascals…. Thus it came to pass that the former sort accumulated wealth, and the latter sort had at last nothing to sell except their own skins. And from this original sin dates the poverty of the great majority that, despite all its labour, has up to now nothing to sell but itself, and the wealth of the few that increases constantly although they have long ceased to work. Such insipid childishness is every day preached to us in the defence of property…

The reality is very very different:

> The process which creates the capital-relation can be nothing other than the process which divorces the worker from the ownership of the conditions of his own labour; it is a process which operates two transformations, whereby the social means of subsistence and production are turned into capital, and

> the immediate producers are turned into wage-labourers. So-called primitive accumulation, therefore, is nothing else than the historical process of divorcing the producer from the means of production. It appears as 'primitive' because it forms the pre-history of capital, and of the mode of production corresponding to capital…

And it is not just that history happened this way in some ethically neutral way. Great crimes were committed. And great was the role played by political corruption. Marx reviews British history starting in 1500, running from Henry VIII Tudor to William III Orange, and beyond:

> The spoliation of the Church's property, the fraudulent alienation of the state domains, the theft of the common lands, the usurpation of feudal and clan property and its transformation into modern private property under circumstances of ruthless terrorism, all these things were just so many idyllic methods of primitive accumulation. They conquered the field for capitalist agriculture, incorporated the soil into capital [a very interesting phrase], and created for the urban industries the necessary supplies of free and rightless proletarians…
>
> The Glorious Revolution... brought into power, along with William of Orange, the landed and capitalist profit-grubbers. They inaugurated the new era by practising on a colossal scale the thefts of state lands which had hitherto been managed more modestly. These estates were given away, sold at ridiculous prices, or even annexed to private estates by direct seizure … The Crown lands thus fraudulently appropriated, together with the stolen Church estates, … form the basis of the present princely domains of the English oligarchy…
>
> Employ the power of the state, the concentrated and organized force of society, to hasten, as in a hothouse, the process of transformation of the feudal mode of production into the capitalist mode, and to shorten the transition. Force is the midwife of every old society which is pregnant with a new one. It is itself an economic power…

Not just market buying-and-selling bring capitalism into being. Brutality and force are the "midwife" of every transformation from one kind of society to another—here the origins of society based on the capitalist mode of production born from the womb of the previous pattern of society based on the feudal mode of production:

> Unleash[ing] the 'eternal natural laws' of the capitalist mode of production, to complete the process of separation between the workers and the conditions of their labour, to transform, at one pole, the social means of production and subsistence into capital, and at the opposite pole, the mass of the population into wage-labourers, into the free 'labouring poor', that artificial product of modern history.... [Feudalism] has to be annihilated; it is annihilated. Its annihilation, the transformation of the individualized and scattered means of production into socially concentrated means of production, the transformation, therefore, of the dwarf-like property of the many into the giant property of the few, and the expropriation of the great mass of the people from the soil, from the means of subsistence and from the instruments of labour, this terrible and arduously accomplished expropriation of the mass of the people forms the pre-history of capital…

4.4.2. "Freedom" Inverted: It's Really Powerlessness

Capitalists and their ideologists write about how everybody is "free" in a capitalist economy: slavery and serfdom have both been abolished, so that workers can go where they want, take the jobs they want, and so raise society's productivity. Marx reacts with very heavy-handed snark.

The serf was not free: he was tied to the land, and had to stay there and present his lord with the customary feudal rents specified under that form of land tenure. The coming of capitalism frees the serf: he is no longer required to stay on his inherited piece of land, and farm it.

But the coming of capitalism "frees" the serf in another sense as well: he is "freed" from his connection with the land, which now belongs to the landlord. And he can do what he used to do—farm the land—only if he can strike a bargain and rent it from the landlord. He is, in the words of Milton and Rose Director Friedman, "free to choose". But he is also free to lose. And—if he cannot strike a bargain to rent the land and then cannot strike a bargain to work as an employee—free to starve.

Yes, he is no longer constrained by the web of obligations that constrained him under the feudal or the petty-bourgeois mode of production. But by the same token that freedom from social position and social ties may well reduce his bargaining power when he goes to the labor market. Constraints can keep you from doing better, but they can also keep you fro being forced to do worse.

Moreover, that bargaining-power reduction is essential for the system's operation, at least in Marx's view. Capitalism can only form if there are a lot of workers who have lost their feudal status as serfs who are both owned by and own the land, and lost their petty-bourgeois status as artisans or merchants who own their tools and their businesses. Only if there is a *proletariat*—a large group of workers who must find a capitalist employer, and must do so under conditions in which workers have very little bargaining power:

> The starting point of the development that gave rise to the wage labourer as well as to the capitalist, was the servitude of the labourer. The advance consisted in a change of form of this servitude, in the transformation of feudal exploitation into capitalist exploitation.… Revolutions are epoch-making that act as levers for the capital class in course of formation; but, above all, those moments when great masses of men are suddenly and forcibly torn from their means of subsistence, and hurled as free and "unattached" proletarians on the labour-market…

4.4.3. Increasing Returns To Scale

Then—without a new part heading—Marx leaves the origin of capitalism behind, and begins analyze the consequence of increasing returns to scale: that the larger the business, the higher its productivity. Increasing productivity with larger-scale production produces very large-scale firms indeed as the system carries itself into the future:

> One capitalist always strikes down many others. Hand in hand with this centralization, or this expropriation of many capitalists by a few, other developments take place on an ever-increasing scale, such as the growth of the co-operative form of the labour process, the conscious technical application of science, the planned exploitation of the soil, the transformation of the instruments of labour into instruments of labour only usable in common, the economising of all means of production by their use as means of production of combined, socialised labour, the entanglement of all peoples in the net of the world market, and with this, the international character of the capitalistic regime…

4.4.4. Increasing Concentration

Moreover, as Marx had argued in the previous part on capital accumulation, increasing accumulation, scale, and productivity will bring with it increasing immiserization: And over time the world becomes worse and worse:

> Along with the constantly diminishing number of the magnates of capital, who usurp and monopolise all advantages of this process of transformation, grows the mass of misery, oppression, slavery, degradation, exploitation…

But the very fact that capitalist firms become larger and larger as the lot of the working class becomes worse and worse greatly reduces the relative difficulty of the ultimate transition: Moving to socialism should not be very difficult at all, because most economic activity will, as capitalism approaches its end, take place not through markets but under the aegis of a few giant monopolistic highly-productive firms. It was difficult to turn feudalism into capitalism by dissolving feudal ties and then separating people from the lands and the business that they had some rights to. It will be easy to simply expropriate the stocks and bonds and nationalize a few giant companies:

> The transformation of scattered private property, arising from individual labour, into capitalist private property is, naturally, a process, incomparably more protracted, violent, and difficult, than the transformation of capitalistic private property, already practically resting on socialised production, into socialised property. In the former case, we had the expropriation of the mass of the people by a few usurpers; in the latter, we have the expropriation of a few usurpers by the mass of the people…

And, in Marx's system, this transformation into socialism will be overwhelmingly popular. For as capitalism will have moved itself into the future, creating increasing productivity, wealth, and immiserization, capitalism will also increasingly produce its own gravediggers.

4.4.5. Come the Revolution

And so:

> With this… grows the revolt of the working class class constantly increasing in numbers, and trained, united and organized by the very mechanism of the capitalist process of production. The monopoly of capital becomes a fetter upon the mode of production which has flourished alongside and under it. The centralization of the means of production and the socialization of labour reach a point at which they become incompatible with their capitalist integument…

Then the New Jerusalem arrives, descending from heaven "prepared as a bride adorned for her husband. And I heard a great voice out of heaven saying, 'Behold, the tabernacle of God is with men, and he will dwell with them, and they shall be his people, and God himself shall be with them, and be their God. And God shall wipe away all tears from their eyes; and there shall be no more death, neither sorrow, nor crying, neither shall there be any more pain: for the former things are passed away…'":

> This integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated...

5. The Impact of Karl Marx

5.1. Ideas and Movements Shook the World

5.1.1. Marx's Vision

Karl Marx had his vision. His vision was about how the Industrial Revolution would transform everything and be followed by a Great Communist Social Revolution—a revolution greater than the political French Revolution—that would wash us up on the shores of Utopia.

The mature Marx saw the economy as the key to history: every forecast and historical interpretation must be based on the economy's logic of development. This project as carried forward by others ran dry. Sometimes—as in, say, Eric Hobsbawm's books on the history of the nineteenth century—this works relatively well. But sometimes it led nowhere. The writing of western European history as the rise, fall, and succession of ancient, feudal, and bourgeois modes of production is a fascinating project. But the only person to try it seriously soon throws the Marxist apparatus over the side, where it splashes and sinks to the bottom of the sea. Perry Anderson's *Passages from Antiquity to Feudalism* and *Lineages of the Absolutist State* are great and fascinating books, but they are not Marxist. They are Weberian. The key processes in Anderson's books concern not "modes of production" but rather "modes of domination."

5.1.2. The Marxist Movement

And when Marx and Engels's writings became sacred texts for the world religion called Communism, things passed beyond the absurd into tragedy and beyond tragedy into horror: the belief that the logic of development of the economy was the most important thing about society became entangled in the belief that Joe Stalin or Mao Zedong or Pol Pot or Kim Il Sung or Fidel Castro was our benevolent master and ever-wise guide.

For this, Robert Heilbroner in *The Worldly Philosophers* writes that Marx deserves considerable blame. It was not so much that his ideas were tyrannical and despotic (although to call the first immediate stage of the transformation of society he envisioned the "dictatorship of the proletariat" turned out to be most unfortunate). It was Marx's organizational and political practice, and thus the model he set that so many others were later to imitate:

> More important… was the peculiar tone which Marx injected into working class affairs. This was the most quarrelsome and intolerant of men, and from the beginning he was unable to believe that any one who did not follow his line of reasoning could possibly be right. As an economist his language was precise, as a philosopher historian it was eloquent, as a revolutionary it was scurrilous. He called his opponents "louts", "rascals", even "bedbugs"…

5.2. Three Faces of Karl Marx

But let us go back to a time before Marxism lost its innocence. Let us go back and look at the thinker, Karl Marx, and what he actually wrote and thought.

5.2.1. A Three-Stage Intellectual Trajectory

Karl Marx had a three part intellectual trajectory. He started out as a German philosopher; became a French-style political activist, political analyst, and political historian; and ended up trying to become a British-style economist and economic historian. At the start of his career he believed that all we had to due to attain true human emancipation was to *think correctly* about freedom and necessity. Later on he recognized that thought was not enough: that we had to organize, politically. And then in the final stage he thought that the political organization had to be with and not against the grain of the truly decisive factor, the extraordinary economic changes that the coming of the industrial revolution was bringing to the world.

At each stage Marx had the enthusiasm of the true-believing convert: it was never the case that philosophy alone could bring utopia, it was never the case that after the revolution all problems will be resolved, and it was never the case that the underlying economic mode of production was the base and that its evolution drove the shape of the superstructure.

Karl Marx never completed the intellectual trajectory he set himself on. He tried as hard as he could to become a British-style classical economist—a "minor post-Ricardian theorist" as Paul Samuelson once joked—but he did not make it: the late, mature Marx is mostly an economist and economic historian, but he is also part political activist—and also part prophet.

5.2.2. Marx the Prophet: The Transcendent

Marx the prophet, here is a sample: Marx on India:

> The ruling classes of Great Britain.... The aristocracy wanted to conquer [India], the moneyocracy to plunder it, and the millocracy to undersell it. But now the... millocracy have discovered that the transformation of India into a reproductive country has become of vital importance.... They intend now drawing a net of railroads over India... exclusive view of extracting at diminished expenses the cotton and other raw materials for their manufactures....
>
> You cannot maintain a net of railways over an immense country without introducing all those industrial processes necessary to meet the immediate and current wants of railway locomotion, and out of which there must grow the application of machinery to those branches of industry not immediately connected with railways. The railway-system will therefore become, in

> India, truly the forerunner of modern industry.... All the English bourgeoisie may be forced to do will neither emancipate nor materially mend the social condition of the mass of the people, depending not only on the development of the productive powers, but on their appropriation by the people. But what they will not fail to do is to lay down the material premises.... Has the bourgeoisie ever done more? Has it ever effected a progress without dragging individuals and people through blood and dirt, through misery and degradation?...
>
> The bourgeois period of history has to create the material basis of the new world... universal intercourse founded upon the mutual dependency of mankind... the development of the productive powers of man.... When a great social revolution shall have mastered the results of the bourgeois epoch... and subjected them to the common control of the most advanced peoples, then only will human progress cease to resemble that hideous, pagan idol, who would not drink the nectar but from the skulls of the slain...

Large-scale prophecy of a glorious utopian future is bound to be false when applied to this world. The New Jerusalem does not descend from the clouds "prepared as a Bride adorned for her Husband". And a Great Voice does not declare: "I shall wipe away all tears from their eyes; and there shall be no more death, neither sorrow, nor crying, neither shall there be any more pain: for the former things are passed away..." But Marx clearly thought at some level that it would: he never got to the island of Patmos on which John the Divine lived, but there is a sense that he got too much into the magic mushrooms.

5.2.3. Marx the Political Activist: The Ugly

Marx the political activist. As I see it, he had three big ideas:

1. that while previous systems of hierarchy and domination maintained control by hypnotizing the poor into believing that the rich in some sense "deserved" their high seats in the temple of civilization, capitalism would–replace masked exploitation by

naked exploitation. Then the scales would fall from people's eyes, for without its masking ideological legitimations unequal class society could not survive. This idea seems to me to be completely wrong. Cf. Antonio Gramsci, passim, on legitimation and hegemony. See also Fox News.

2. that even though the ruling class could appease the working class by using the state to redistribute and share the fruits of economic growth it would never do so. They would be trapped by their own ideological legitimations--they really do believe that it is in some sense “unjust” for a factor of production to earn more than its marginal product. Hence social democracy would inevitably collapse before an ideologically-based right-wing assault, income inequality would rise, and the system would collapse or be overthrown. The *Wall Street Journal* editorial page works day and night 365 days a year to make Marx’s prediction come true. But I think this, too, is wrong.

3. that factory work was the wave of the future, and factory work--lots of people living in cities living alongside each other working alongside each other--would lead people to develop a sense of their common interest. Hence people would organize, revolt, and establish a free and just society in a way that they could not back in the old days when the peasants of this village were suspicious of the peasants of that one, and peasants formed not a class for themselves but, rather, a sack of potatoes which can attain no organization but simply remains a sack of potatoes. Here I think Marx mistook a passing phase for an enduring trend. Active working-class consciousness as a primary source of loyalty and political allegiance was never that strong. Nation and ethnos trump class, never more so that when the socialists of Germany told their emperor in 1914 that they were Germans first and Marxists second.

Add to these the fact that Marx's idea of the "dictatorship of the proletariat" was clearly not the brightest light on humanity's tree of ideas, and I see very little in Marx the political activist that is worthwhile today.

5.2.4. Marx the Economist: The Good

Marx the economist—well, Marx the economist had six big things to say, some of which are very valuable even today across more than a century and a half, and some of which are not. I would call them the three goods and the three bads:

1. Marx the economist was among the very first to recognize that the fever-fits of financial crisis and depression that afflict modern market economies were not a passing phase or something that could be easily cured, but rather a deep disability of the system--as we are being reminded once again right now, this time with Ben Bernanke, Tim Geithner, and Larry Summers in the Hot Seats. Marx pointed the spotlight in the right direction here. However, I don't think that his theory of business cycles and financial crises holds up. Marx thought that business cycles and financial crises were evidence of the long-term unsustainability of the system. We modern neoliberal economists view it not as a fatal lymphoma but rather like malaria: Keynesianism—or monetarism, if you prefer—gives us the tools to transform the business cycle from a life-threatening economic yellow fever of the society into the occasional night sweats and fevers: that with economic policy quinine we can manage if not banish the disease, *if we are not too stupid to do it.*

2. Marx the economist was among the very first to get the industrial revolution right: to understand what it meant for human possibilities and the human destiny in a sense that people like Adam Smith did not. In his *Politics* Aristotle observed that it was

not possible to run a household in a way that permitted its head enough leisure and freedom to, say, become a lover of wisdom unless the household owned slaves, and that this would be true unless and until we had instruments like "the statues of Daedalus, or the tripods of Hephaestus, which, says the poet, 'of their own accord entered the assembly of the Gods'; if, in like manner, the shuttle would weave and the plectrum touch the lyre without a hand to guide them, chief workmen would not want servants, nor masters slaves…" Karl Marx was among the very first to see that the industrial revolution was giving us the statues of Daedalus, the tripods of Hephaestus, looms that weave and lyres that play by themselves--and thus opens the possibility of a society in which we people can be lovers of wisdom without being supported by the labor of a mass of illiterate, brutalized, half-starved, and overworkedslaves. *Something close to utopia* ***is*** *within our grasp.*

3. Marx the economist got a lot about the economic history of the development of modern capitalism in England right—not everything, but he is still very much worth grappling with as an economic historian of 1500-1850. Most important, I think, are his observations that the benefits of industrialization do take a long time—generations—to kick in, while the costs of redistributions and power grabs in the interest of market efficiency and the politically-powerful rising mercantile classes kick in immediately. You have to take seriously the idea that the industrial revolution did not make most or even many people better off right away. Reflect also that, as Tyler Cowen observes, capitalist systems can produce less autonomy than small scale production. Standards of living do rise from industrialization—which can undercut the cultures and networks of suppliers that make the choice of a *petit bourgeois* lifestyle sustainable.

5.2.5. Marx the Economist: The Bad

Now on to the three bads:

1. Marx believed that capital is not a complement to but a substitute for labor. Thus technological progress and capital accumulation that raise average labor productivity also lower the working-class wage. Hence the market system simply could not deliver a good or half-good society but only a combination of obscene luxury and mass poverty. This is an empirical question. Marx's belief seems to me to be simply wrong.

2. Marx the economist did not like the society of the cash nexus. He believed that a system that reduced people to some form of prostitution—working for wages and wages alone—was bad. He saw a society growing in which worked for money, and their real life began only when the five o'clock whistle blows—and saw such an economy as an insult, delivering low utility, and also sociologically and psychologically unsustainable in the long run. Instead, he thought, people should view their jobs as expressions of their species-being: ways to gain honor or professions that they were born or designed to do or as ways to serve their fellow-human. Here, I think, Marx mistook the effects of capitalism for the effects of poverty. The demand for a world in which people do things for each other purely out of beneficence rather than out of interest and incentives leads you down a very dangerous road, for societies that try to abolish the cash nexus in favor of public-spirited benevolence do not wind up in their happy place. We neoliberal economists shrug our shoulders and say that we are in favor of a market economy but not of a market society, and that there is no reason why people cannot find jobs they like or insist on differentials that compensate them for jobs they don't.

3. Marx believed that the capitalist market economy was incapable of

delivering an acceptable distribution of income for anything but the briefest of historical intervals. As best as I can see, he was pushed to that position by watching the French Second Republic of 1848-1851, where the ruling class comes to prefer a charismatic mountebank for a dictator—"Napoleon III"—over a democracy because dictatorship promises to safeguard their property in a way that democracy will not. Hence Marx saw political democracy as only surviving for as long as the rulers could pull the wool over the workers' eyes, and then collapsing. I think that Western Europe over the past fifty years serves as a significant counterexample. It may be difficult to maintain a democratic capitalist market system with an acceptable distribution of income. But "incapable" is surely too strong. Beveridgism or Myrdalism—social democracy, progressive income taxes, a very large and well-established safety net, public education to a high standard, channels for upward mobility, and all the panoply of the twentieth-century social-democratic mixed-economy democratic state can banish all Marx's fears that capitalist prosperity must be accompanied by great inequality and great misery.

5.3. Where Marx's Ideas Came From

The good things that Marx was able to think must, I believe, be credited to his own account—to his thoughtfulness, his industry, his intelligence, and his desperate desire to try to get things right. The bad things have, I believe, two of his intellectual origins: Marx's beginnings in German philosophy, and the fact that he hooked up in the 1840s with Friedrich Engels whose family owned textile factories in Manchester.

5.3.1. Hegel

Flirting with Hegel: German philosophy, or perhaps rather Hegel. I remember reading *Capital* for the first time. The first three sections of chapter 1 seemed (a) boring, and (b) tautological. For example:

> When, at the beginning of this chapter, we said in common parlance that a commodity is both a use value and an exchange value, we were, accurately speaking, wrong. A commodity is a use value or object of utility and a value. It manifests itself as this twofold thing that it is as soon as its value assumes an independent form—viz., the form of exchange value. It never assumes this form when isolated but only when placed in a value or exchange relation with another commodity of a different kind. When once we know this such a mode of expression does no harm...

And then I hit section 4: "The Fetishism of Commodities and the Secret Thereof":

> A commodity is… a mysterious thing… in it the social character of men's labour appears to them as an objective character stamped upon the product… the relation of the producers to the sum total of their own labour is presented… as a social relation… not between themselves but between the products…. In the same way the light from an object is perceived by us not as the subjective excitation of our optic nerve but as the objective form of something outside the eye…. But in the act of seeing there is at all events an actual passage of light from one thing to another, from the external object to the eye. There is a physical relation between physical things. But it is different with commodities. There the existence of the things quâ commodities and the value relation between the products of labour which stamps them as commodities have absolutely no connection with their physical properties… [I]t is a definite social relation between men that assumes in their eyes the fantastic form of a relation between things… we must have recourse to the mist-enveloped regions of the religious world… the productions of the human brain appear as independent beings endowed with life and entering into relations both with one another and the human race. So it is in the world of commodities with the products of men's hands. This I call the Fetishism which attaches itself to the products of labour so soon as they are produced as commodities…. This Fetishism of

> commodities has its origin, as the foregoing analysis has already shown, in the peculiar social character of the labour that produces them...

Marx describes this as *coquett[ing] with the modes of expression peculiar to [Hegel]*.

Put me on record as saying that this “coquetting” is profoundly unhelpful.

The Labor Theory of Value: What is going on here? What I think is going on *inside Marx's head* is something strange. To say that “the value relation[s] between the products of labour... have absolutely no connection with their physical properties” is simply wrong: if the coffee beans are rotten—or if their caffeine level is low—they have no value at all, for nobody will buy them. Marx says that the *value* of a good is something inscribed within it and attached to it—the socially-necessary labor time for its production—that then bosses people around. And it is the *values—*not the prices at which things are actually bought and sold—that are the elements of the real important reality. And those *values*: “appear as independent beings endowed with life and entering into relation both with one another and the human race”.

Now I have never found anybody who thinks this way.

Nobody I talk to believes that “values” are objective quantities inherent in goods by virtue of the time it took to produce them.

Everybody I talk to believes that things are both (a) useful to me and (b) useful to other people, and moreover (c) we live in a society where we exchange stuff—where we, in Adam Smith's words, truck, barter, and exchange. If the combination of my wealth and its usefulness to me makes me *value* it the most, then I use it--it is to me what Marx calls a *use value*. If there is somebody else out there whose combination of their wealth and its usefulness to them makes them *value* it more than I do, then I trade it away to them directly or indirectly for stuff that I value more—they consume it, and it is to me what Marx calls an *exchange value*. But what Marx calls *exchange values* are really use values *to others*: a combination of (a) bargaining power--wealth--and (b) utility to actual concrete breathing humans. Things have value not because of the abstraction that socially-necessary labor time is needed to produce them but because of the concretion that somebody somewhere wants to use it and has something ese that others find useful to trade in turn. What Marx calls the mysterious and bizarre dual character of commodities is nothing mysterious or bizarre: it is simply the fact that I am not the only person in the world, and that things very useful to me may be less useful to others, and vice versa.

5.3.2. Misleading Himself with Mystery

Moreover, capitalist production has nothing to do with what Marx describes as this mysterious dual character of commodities. The distinction between use-value and exchange-value is not something invented by or peculiar to the capitalist mode of production: it is found in all human societies, no matter how large or small, no matter what the glue that holds them together. The cattle slaughtered and cooked by the thralls of Hrothgar, King of the Geats, have use-value to Hrothgar: He and his family can eat (some of) them. The cattle have exchange-value to Hrothgar as well: He feeds them to his warriors at their nightly banquets in his great hall of Heorot. In exchange for livery and maintenance, the warriors fight Hrothgar's wars. Success in war gains Hrothgar more thralls, more cattle, and a bigger and better reputation as a great drighten worth following—until Grendel comes along, and makes eating Hrothgar's cattle in exchange for following him into battle too hazardous to life and limb.

In my view, Marx has trapped himself. He has been primed to expect a deeper layer of real reality underneath mere appearances. And he has chosen the wrong model of the underlying real reality—the labor theory of value, which is simply not a very good model of the averages around which prices fluctuate. Socially-necessary labor power usually serves as an upper bound to *value*—if something sells for more, then a lot of people are going to start making more of them, and the prices at which it trades are going to fall. But lots of things sell for much less than the prices corresponding to their socially-necessary labor power lots of the time. And so Marx vanishes into the swamp which is the attempt to reconcile the labor theory of value with economic reality, and never comes out.

5.3.3. Mistaking What Markets Do

This matters because one conclusion Marx reaches is that markets and their prices are necessarily a source of oppression—that they aren't sources of opportunity (to trade your stuff or the stuff you make to people who *value* it more) but rather of domination by others and unfreedom: the system forces you to sell your labor-power for its *value* which is less than the *value* of the goods you make. And it is that conclusion that human freedom is totally incompatible with wage-labor or market exchange that leads the political movements that Marx founded down very strange and very destructive roads.

5.3.4. Manchester

I've done Hegel. Now let me do Manchester.

Manchester vs. Birmingham: The British interests of the German partnership of Ermen and Engels were not in London or in Birmingham but instead in Manchester. Engels's 1845 *Condition of the Working Class in England*, cribbed for section 1 of the *Manifesto*, was about the condition of the working class in Manchester. Yet as Asa Briggs (1963) stressed most strongly, Manchester was not typical of England.

Briggs quotes Tocqueville's descriptions of Manchester as a city with "a few great capitalists, thousands of poor workmen and little middle class" compared to Birmingham with:

> few large industries, many small industrialists... workers work in their own houses or in little workshops in company with the master himself... the working people of Birmingham seem more healthy, better off, more orderly and more moral than those of Manchester...

Briggs speculated that Engels's book would have been very different indeed had Ermen and Engels's interests been elsewhere than Manchester:

> his conception of 'class' and his theories of the role of class in history might have been very different.... Marx might have been not a communist but a currency reformer...

Back in 1998, we got George Boyer of Cornell to take a look at the historical circumstances of the composition of the *Manifesto*:

> Average age of death of "mechanics, labourers, and their families" in Manchester was 17, as compared to 38 in rural Rutlandshire... despite the fact that laborers' wages were at least twice as high in Manchester... 57 percent of children born in Manchester to working class parents died before their fifth birthday.... Engels arrived in Manchester in the late fall of 1842, Britain was just beginning to recover from the deep depression of 1841-42... "crowds of unemployed working men at every street corner, and many mills were still standing idle" (Engels, 1845 [1987], pp. 121 – 22).... The Economist reported that in the first six months of 1848 [as the *Manifesto* was being written], 18.6 percent of the workforce in Manchester's cotton mills was unemployed, and another 9.5 percent was on short time (Boyer, 1990, p. 235)....
>
> John Stuart Mill (1848 [1909], p. 751)... concluded that "hitherto it is questionable if all the mechanical inventions yet made have lightened the day's toil of any human being. They have enabled a greater population to live the same life of drudgery and imprisonment, and an increased number of manufacturers and others to make fortunes."... Marx and Engels… were not alone in asserting that the standard of living... was quite poor, and

> perhaps declining... during the "hungry '40s."... Army recruits born around 1850 were shorter than those born around 1820…

Writing at the Nadir for the Working Class: Marx and Engels wrote the *Manifesto*—and made their permanent intellectual commitments—in 1848. It looks as though they wrote at the nadir of living standards as far as British Lancashire textile workers were considered. Their assertion that wages declined as capitalism progressed looks good up until 1848 if you take Manchester as your guide. Thereafter it proved wrong. By 1865 wages were a little bit higher than they had been in 1848. And after 1870 they took off: by 1880 manual workers were earning 40% more than in 1850.

Moreover, the political ice was cracking as well. Parliament began to regulate conditions of employment in the 1840s. Parliament began to regulate public health in the 1850s. Parliament doubled the urban electorate in 1867, just as volume 1 of *Capital* was published. Parliament gave unions official sanction to bargain collectively in the 1870s. All these were permanent gains—not temporary victories reversed by the power of capital.

6. From Marx to Marxism

6.1. What Happens When the World Surprises?

Marx appears to have responded to this world developing in an unexpected way not by rethinking his opposition to markets as social allocation mechanisms or by reworking his analyses of the dynamics of economic growth, capital accumulation, and the real wage level, but by blaming British workers for not acting according to his model in response to predictions by Marx of continued impoverishment and ever-larger business cycles that had not come to pass.

Boyer quotes Marx writing in 1878 about how British workers "had got to the point when [the British working class] was nothing more than the tail of the Great Liberal Party, i.e., of the oppressors, the capitalists". And Boyer quotes Engels writing in 1894 of how "one is indeed driven to despair by these English workers... bourgeois ideas... viewpoints... narrow-mindedness…"

And so in the late 1870s—after the failure of the British working class to become more militant, the failure of the Paris Commune and the founding of the French Third Republic, and Bismarck's creation of a unified Prussified German Empire—Marx and Engels started to turn their attention toward Russia. Perhaps a socialist revolution would be possible in a poorer country, where the political system did not have the resources to bribe the working class into acquiescence with the system?

That idea did not, in the end, turn out well.

6.2. Marxism-in-Power

In the end, Marx and Engels's writings became sacred texts for the world religion called Communism. Somehow, the idea that the market system and private property were not the utopian end-state of human society became entangled in the belief that Joe Stalin or Mao Zedong or Pol Pot or Kim Il Sung or Fidel Castro was our benevolent master and ever-wise guide. As noted above, Heilbroner in *The Worldly Philosophers* places substantial blame on Marx—not on his ideas, but on how he conduced himself within the socialist movement. There was:

> the peculiar tone which Marx injected into working class affairs. This was the most quarrelsome and intolerant of men, and from the beginning he was unable to believe that any one who did not follow his line of reasoning could possibly be right. As an economist his language was precise, as a philosopher historian it was eloquent, as a revolutionary it was scurrilous. He called his opponents "louts", "rascals", even "bedbugs"…

Heilbroner sees clear links between Marx and Marxism-in-power. I see those links as complex and fraught—much more complicated than the links between Smith and neoliberalism-in-power, or Keynes and Keynesianism-in-power. Because they are complex and fraught, I am cautious about stating a firm position. But I do believe that Marx's refusal to imagine what his socialist utopia would be created a gap in the doctrines that descended from him that was filled in an ugly way. Among the least ugly of the rulers of Marxism-in-power was Cuba's Fidel Castro. And here we have Argentinian Jacobo Timmerman reflecting on Latin American author Gabriel Garcia Marquez's Castro worship:

> When I read one of Gabriel Carcia Marquez's essays on the [Cuban] Commandante [Fidel Castro], I was remind of paeans to Stalin—of the whole state of mind described by Arthur Koestler in Darkness at Noon. Garcia Marquez praises Fidel Castro for needing only six hours of sleep after a day's hard work—the same six hours that were often presented as proof of Josef Stalin's vitality, extolled in writings that also described his Kremlin window lit until the small hours of the night—and praises the wisdom of the Commandante in stating that "learning to rest is as important as learning to work". If the cumulative tasks in Fidel Castro's workday as it is describe by Garcia Marquez are counted up, the Castro who emerges is a prodigy—someone who triumphs by supernatural intelligence:
>
> > His rarest virtue is the ability to foresee the evolution of an event to its farthest-reaching consequence...
>
> and:
>
> > He has breakfast with no less than two hundred pages of news from the entire world...
>
> (a long breakfast, surely), and:
>
> > He has to read fifty-odd documents [daily]...

And the list goes on:

> No one can explain how he has the time or what method he employs to read so much and so fast.... A physician friend of his, out of courtesy, sent him his newly-published orthopedic treatise, without expecting him, of course, to read it, but one week later he received a letter from Castro with a long list of observations.... There is a vast bureaucratic incompetence affection almost every realm of daily life, especially domestic happiness, which has forced Fidel Castro himself, almost thirty years after victory, to involve himself personally in such extraordinary matters as how bread is made and the distribution of beer.... He has created a foreign policy of world-power dimensions…

Fidel Castro, then, has a secret method, unknown to the rest of mankind, for reading quickly, and he knows a lot about orthopedics, and yet thirty years after the Revolution he has not managed to organize a system for baking bread and distributing beer...

7. Keynes's Road to His *General Theory*

7.1. The Lives of John Maynard Keynes

7.1.1. Many Facets

John Maynard Keynes appeared to live more lives than any of the rest of us are granted. Keynes was an academic, but also a popular author. His books were read much more widely outside of academia than within it. Keynes was a politician—trying to advance the chances of Britain's Liberal Party between the wars—but also a bureaucrat: at times a key civil servant in the British Treasury. He was a speculator, trying to make his fortune on the stock market, but also at the core of the "Bloomsbury Group" of artists and intellectuals that did so much to shape interwar culture.

For the *literati* it is Keynes of Bloomsbury—his loves, enthusiasms, acts of patronage, and wit—who is the most interesting. For economists like myself, it is Keynes the academic who is the *real* Keynes: he was the founder of the half-science half-witchcraft discipline of macroeconomics. For those interested in the political and economic history of the twentieth century, it is Keynes the author and politician who is primary.

In either of the latter two cases, John Maynard Keynes is the man who has the best claim to be the architect of our modern world—whether it is how our central banks think about economic policy, what our governments believe that they must try to do, the institutions through which they work, or the habit of thought that views the economy not as Adam Smith's "system of natural liberty" but as a complicated machine that needs adjustment and governance, all of these trace large parts of their roots to the words and deeds of John Maynard Keynes.

7.1.2. Growing Up Keynes

This man came to be in the peculiar hothouse of upper-class pre-World War I British intellectualdom. In his immense biography of Keynes, Robert Skidelsky recounts the story well.

Keynes was one of a relatively small number of brilliant students thrust as a leaven into the mass of Britain's upper class at the boarding school of Eton. He was thus part of a small intellectual elite thoroughly mixed into Britain's social and inherited-wealth elite. An entire cohort of Britain's upper class thus learned before they were twenty that Keynes could be very smart, very witty, very entertaining—and very helpful if there was a hard problem to be thought through. Thus Keynes's industry and intelligence thus made him a trusted and effective member of Britain's intellectual and administrative elite well before the eve of World War I. The India Office and the Treasury especially contained many of his friends.

Keynes went to university where he had grown up and where his father taught: Cambridge. There he joined an elite secret society—the Apostles. There he eagerly grasped with both hands of the philosophy of the aesthete. As Keynes put it in 1938, he believed that one should arrange one's life to achieve the most good, where “good” was nothing more or less than:

> states of mind... states of mind... not associated with action or achievement or with consequences [but]... timeless, passionate states of contemplation and communion…. a beloved person, beauty, and truth…

Keynes left Cambridge believing that life should consist of love, of the enjoyment of art, of the creation of art, and the pursuit of knowledge, with “love c[o]m[ing] a long way first…” This embrace of aestheticism was and remained the key to the “Bloomsbury” avatar of John Maynard Keynes, for whom the lodestars were, as Skidelsky put it, to “be in love with one’s friends, with beauty, with knowledge”. This Keynes was an enthusiastic member of the social-intellectual set whose center was Virginia Wolff and whose home was the London neighborhood of Bloomsbury. He enthusiastically embraced its values and its fashions—and its parties.

Skidelsky recounts that Keynes celebrated getting a job at the British Treasury with:

> a party for seventeen… at the Café Royale.... Afterwards they went back to 46 Gordon Square for Clive [Bell]’s and Vanessa [Bell, the sister of Virgina Woolf]’s party. There they listened to a Mozart trio... and went upstairs for the last scene of a Racine play performed by three puppets made by Duncan [Grant], with words spoken by the weird-voiced Stracheys. ‘The evening ended with Gerald Shove enthroned in the center of the room, crowned with roses…

In Keynes's correspondence there is this love letter to his future wife, the *prima ballerina* Lydia Lopokova:

> In my bath today I considered your virtues—how great they are. As usual I wondered how you could be so wise. You must have spent much time eating apples and talking to the serpent! But I also thought that you combined all ages—a very old woman, matron, a debutante, a girl, a child, an infant; so that you are universal. What defence can you make against such praises?…

Virginia Woolf wrote down a different, less happy view of Keynes at Bloomsbury. She wrote of her:

> vivid sight of Maynard by lamplight—like a gorged seal, double chin, ledge of red lip, little eyes, sensual, brutal, unimaginate. One of those visions that come from a chance attitude, lost as soon as he turned his head. I suppose though it illustrates something I feel about him. He's read neither of my books…

There is a clear lesson: if your circle includes Nobel prize class novelists with wicked pens, read their books, and praise them as often as possible.

But the young Keynes was not just a decadent literary intellectual aesthete. He did economic science, policy, and had considerable liking for policy as well. For Keynes it was never enough to pursue knowledge in order to achieve a good state of mind, one had also to be sure to cause the knowledge to be applied to make the world a better place. He flirted with a career in government—at the India Office, or at the Treasury. He wrote a practical and policy-oriented book *Indian Currency and Finance* at the same time as he worked on the deeper and philosophical academic project that was his *Treatise on Probability.* By the time World War I started Keynes was convinced that he wanted his main base of operations to be in academia, at Cambridge. But the train to central London took less than an hour and a half.

Then came World War I.

7.1.3. World War I Disillusionment

The national emergency that was World War I gave Keynes an important and powerful job at the Treasury during the national. How do you mobilize the financial resources of Britain to support the war effort? How large a war effort could the British economy stand? How could an international trade system geared to consumer satisfaction be harnessed as an instrument of national power? These are all deep and complicated questions. These are what Keynes worked on.

But as the death toll from World War I mounted up toward ten million, Keynes became angrier and angrier at this monstrous botch of human lives and social energy that was World War I—and angrier and angrier at the politicians who could see no way forward other than mixing more blood with mud at Paaschendale.

Keynes's friend David Garnett wrote him a letter condemning his work for the government, calling Keynes:

> an intelligence they need in their extremity.... A genie taken incautiously out... by savages to serve them faithfully for their savage ends, and then—back you go into the bottle.... Oh... our savages are better than other savages.... But don't believe in the profane abomination…

The interesting thing was that Keynes agreed that there was a great deal of truth in what Gannett had written.

7.2. After World War I

7.2.1. World War I Shattered the World

World War I shattered the world John Maynard Keynes had grown up in. The era from 1871-1914 had been a happy period for the globe:

wars were, if not infrequent, less frequent; economic growth worldwide outstripped by far what was previously thought possible; income inequality was high but was not rising fast enough to keep a considerable share of the fruits of economic growth from trickling down.

That world—and Keynes's vision of it—is best captured in an extended passage from Keynes's 1991 *The Economic Consequences of the Peace:*

> What an extraordinary episode in the economic progress of man that age was which came to an end in August, 1914!
>
> The greater part of the population, it is true, worked hard and lived at a low standard of comfort, yet were, to all appearances, reasonably contented with this lot. But escape was possible, for any man of capacity or character at all exceeding the average, into the middle and upper classes, for whom life offered, at a low cost and with the least trouble, conveniences, comforts, and amenities beyond the compass of the richest and most powerful monarchs of other ages.
>
> The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages; or he could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in any continent that fancy or information might recommend.
>
> He could secure forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport or other formality, could despatch his servant to the neighboring office of a bank for such supply of the precious metals as might seem convenient, and could then proceed abroad to foreign quarters, without knowledge of their religion, language, or customs, bearing coined wealth upon his person, and would consider himself greatly aggrieved and much surprised at the least interference.

> But, most important of all, he regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement, and any deviation from it as aberrant, scandalous, and avoidable. The projects and politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions, and exclusion, which were to play the serpent to this paradise, were little more than the amusements of his daily newspaper, and appeared to exercise almost no influence at all on the ordinary course of social and economic life, the internationalization of which was nearly complete in practice…

This passage is, to some degree, upper-class-twittish: the claims that the poor "were, to all appearances, reasonably contented with this lot…" and that "escape was possible, for any man of capacity or character at all…" do grate. But the passage is, broadly, true. Global economic growth did greatly speedup in the 1870s, with rates of growth of world income per capita accelerating from 0.2% per year (with all or more than all going to the upper classes) to about 1.4% per year (broadly distributed). Life did offer "conveniences, comforts, and amenities beyond the compass of the richest and most powerful monarchs of other ages". Not just the inhabitants of London but all those with the social power of money in every continent lived in a newly and uniquely globalized world—in goods traffic, in investments, in tourism, and to migration.

And, most important, nearly all did regard this post-1870 age of largely-peaceful globalized boom as "normal, certain, and permanent, except in the direction of further improvement".

The kicker is worth repeating:

> The projects and politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions, and exclusion, which were to play the serpent to this paradise, were little more than the amusements of his daily newspaper, and appeared to exercise almost no influence at all on the ordinary course of social and economic life, the internationalization of which was nearly complete in practice…

All this came crashing down over 1914-1918. And so after World War I there was a strong desire to get back there—a desire that was to be frustrated, as that "I" after "World War" indicates. Keynes, looking around after the war, desperately wanted to help in this process of rebuilding the progressive, peaceful, prosperous, liberal global society in which he had been brought up.

7.2.2. The Economic Consequences of the Peace

To help in the process of rebuilding the pre-World War I order, Keynes went to the post-World War I peace conference in France at Versailles as one of the aides of British Prime Minister David Lloyd George. And there everything went smash as the whole project of post-World War I reconstruction went wrong. The new German government was treated as a foe rather than a democratic ally. The object seemed to be to extract as much in plunder and reparations from Germany as possible: Germany was to squeezed "until the pips squeak". And politicians from the victor countries, fearing their electorates would ask them what the sacrifices of war had been for, grossly overpromised. South African politician Jan Christian Smuts wrote letters home telling of his (and Keynes's) moods as they watched rebuilding fail:

> Poor Keynes often sits with me at night after a good dinner and we rail against the world and the coming flood. And I tell him that this is the time for Grigua's prayer (the Lord to come himself and not to send his Son, as this is not a time for children). And then we laugh, and behind the laughter is [Herbert] Hoover's horrible picture of thirty million people who must die unless there is some great intervention. But then again we think that things are never really as bad as that; and something will turn up, and the worst will never be. And somehow all these phases of feeling are true and right in some sense...

Keynes reacted by exploding with his book called *The Economic Consequences of the Peace*. It condemned the political maneuvering of Versailles and the treaty that resulted in the strongest possible terms. He excoriated short-sighted politicians who were interested in victory rather than peace. He outlined alternative proposals for peace: little reparations, cancellation of inter-allied debts, a European Union free trade zone, international cooperation to stabilize currency values and enable trade, and he prophesied doom from the treaty that the victors had set forth. If the Treaty of Versailles were carried out, and if as a result Germany kept poor for a generation as the allies:

> aim[ed] deliberately at the impoverishment of Central Europe, vengeance, I dare predict, will not limp. Nothing can then delay for long that final civil war between the forces of reaction and the despairing convulsions of revolution, before which the horrors of the late German war will fade into nothing, and which will destroy... the civilization and progress of our generation...

In Skidelsky's view, *The Economic Consequences of the Peace* is *the* key to understanding Keynes. It "marked a radical shift in Keynes's thought." Before, he had held to "the nineteenth-century assumption of 'automatic' economic progress sustained by liberal institutions." After the experiences that had generated The Economic Consequences of the Peace, Keynes looked forward to a future "in which prosperity would have to be strenuously won in the teeth of the adverse circumstances which the war had created."

The Economic Consequences of the Peace made Keynes famous. His horror at the terms of the peace treaty won him friends like Felix Frankfurter, a powerful molder of opinion in the United States. In his book, propelled by "passion and despair," Keynes "spoke like an angel with the knowledge of an expert" and showed an extraordinary mastery not just of economics but also of the words that were needed to make economics persuasive. Before *The Economic Consequences of the Peace*

Keynes was primarily an academic (with some government experience) with a lot of influential literary friends. Afterwards he was a celebrity. He was more than the private Keynes, characterized by Skidelsky as:

> the Cambridge don selling economics by the hour, the lover of clever, attractive, unworldly young men, the intimate of Bloomsbury...

He was also—because of what he had done with his pen after Versailles—a multifaceted celebrity. Once again, Skidelsky:

> [Keynes was] the monetary reformer, the adviser of governments, the City [of London financial] magnate, the feared journalist whose pronouncements caused bankers and currencies to tremble... conferences jostled with holidays, intimacy merged into patronage. In 1925 the world-famous economist would marry a world-famous ballerina [Lydia Lopokova] in a blaze of publicity...

7.3. The Croakings of a Cassandra

7.3.1. Keynes's Mission, and He Chose to Accept It…

So after World War I Keynes used what power he had to—don't laugh—try to restore civilization. In Skidelsky's—powerful and I believe correct—interpretation, Keynes before 1914:

> believed (against much evidence, to be sure) that a new age of reason had dawned. The brutality of the closure applied in 1914 helps explain Keynes's reading of the interwar years, and the nature of his mature efforts... to restore the expectation of stability and progress in a world cut adrift from its nineteenth-century moorings…

Thus the mature Keynes—Keynes in the 1920s—engaged in a brave but losing struggle against the approaching Great Depression, against political insanity, and against the Nazi Party's attempted revenge for the German defeat in World War I.

The battlefield John Maynard Keynes found himself fighting on was the battlefield of the business cycle: the deep and prolonged depressions of tens of thousands of bankrupt firms and millions of pointlessly unemployed workers that afflicted the capitalist economy. He thought that if he could only persuade people how to fix them, the pre-World War I political-economic regime of high investment, equitable growth, rising prosperity, and social progress would resume. And he thought he knew how to fix them.

Thus he fought against chaos. Yet chaos came, with the whipsaw of inflation and depression in the 1920s, and with the Great Depression and the Nazis of the 1930s.

6.3.2. Against Restoring the Classical Gold Standard

Keynes struggled politically and intellectually: for stable money and full employment, and against deflation, overvalued exchange rates, and the sacrifice of the happiness of today's populations in the hopes of regaining the imagined benefits of the classical gold standard at some time in the distant future.

Keynes spent more than a decade arguing against the Versailles Treaty. He failed to achieve any material easing of its terms until it was too late—until the Great Depression had arrived and the Nazis were on the march.

Keynes spent more than a decade arguing against central bankers who "think it more important to raise the dollar exchange a few points than to encourage flagging trade." He tried to prevent Britain's return to the gold standard in 1925 at an overvalued exchange rate. He argued to British governments that economic policy should be decided upon by rational thought rather than by obedience to old poorly-understood and intellectually-shaky gold standard nostrums.

His central argument in the 1920s was that the pre-World War I system had worked because shocks disturbing it were small. Now in the 1920s, as a result of World War I and postwar turmoil, the economic system faced shocks that were very large. To hold on to pre-World War I policy standards thus made sense only if the system would rapidly and painlessly restore full-employment stable-price equilibrium even after large economic shocks. And there was no warrant for that belief, or rather hope, or rather delusion. Instead, governments advised by clever people needed to skate to where the puck was going to be, rather than stand around and wait for equilibrium-restoring market forces to return the puck to them where they were.

His most famous rant was in opposition to economists who believed that simply setting exchange rates at their pre-World War I parities and having central banks properly adjust money stocks would quickly and automatically restore stability and prosperity:

> A Currency Note has no utility in itself and is completely worthless except for the purchasing power which it has as money. Consequently what the public want is not so many ounces or so many square yards or even so many £ sterling of currency notes, but a quantity sufficient to cover a week's wages, or to pay their bills, or to meet their probable outgoings on a journey or a day's shopping. When people find themselves with more cash than they require for such purposes, they get rid of the surplus by buying goods or investments, or by leaving it for a bank to employ, or, possibly, by increasing their hoarded reserves. Thus the number of notes which the public ordinarily have on hand is determined by the amount of 'purchasing power which it suits them to hold or to carry about, and by nothing else….
>
> So far there should be no room for difference of opinion. The error often made by careless adherents of the Quantity Theory… is… the further assumption that a mere change in the quantity of the currency cannot affect k, r, and k'… that an arbitrary doubling of [the money stock] n…must have the effect of raising [the price level] p to double what it would have been otherwise….

> Now "in the long run" this is probably true. If, after the American Civil War, the American dollar had been stabilised and defined by law at 10 per cent below its present value, it would be safe to assume that [the quantity of money] and [the price level] p would now be just 10 per cent greater than they actually are.… But this long run is a misleading guide to current affairs. *In the long run* we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is long past the ocean is flat again…

7.3.3. Against Policies of Austerity and Deflation

By overvaluing the pound sterling, Winston Churchill was giving the baton to—indeed, requiring the Bank of England—to enforce deflation and austerity. For an overvalued pound could only be maintained by interest rates higher than the neutral rate that balanced aggregate demand and aggregate supply at full employment, that made Say's Law true in practice even though it was false in theory. Thus Churchill, and many other political actors around the world in the 1920s and 1930s had required:

> the deliberate intensification of unemployment. The object of credit restriction, in such a case, is to withdraw from employers the financial means to employ labor at the existing level of prices and wages. This policy can only attain its end by intensifying unemployment without limit, until the workers are ready to accept the necessary reduction in money wages under the pressure of hard facts.... Deflation does not reduce wages 'automatically.' It reduces them by causing unemployment. The proper object of dear money is to check an incipient boom. Woe to those whose faith leads them to use it to aggravate a Depression!…

Yet Keynes found himself rolling the Sisyphean boulder uphill in his arguments. The pre-World War I global economy had been prosperous. The pre-World War I economy had run on the gold standard and, at least in its self-image, *laissez-faire.* Why wasn't the right post-World War I strategy simply to restore that framework of prosperity by getting back on the gold standard and aiming at *laissez-faire*—balanced budgets, sound money, economy, letting the private sector decide, shrinking the hypertrophied wartime government down to its proper size? Keynes had arguments, but they were clever arguments understood only by the clever.

Under the presumption that *laissez-faire* was proper unless proven otherwise beyond a reasonable doubt, Keynes's arguments had little purchase. For reasonable doubt could always be manufactured.

7.3.4. Failure

But in the end Keynes failed more-or-less completely. He failed to prevent deflation and high unemployment in Britain. He failed to convince people that the Great Depression was a man-made catastrophe that could be cured relatively easily. His pen—though strong—was not strong enough. His allies were too few. And among central bankers and cabinet ministers understanding of the situation in which they were embedded was rare.

His warnings and arguments were ignored—"the croakings of a Cassandra" as he was to call them, after the Trojan princess who was cursed by Apollo with the twin gifts of (a) accurate prophecy and (b) always being ignored. And his big academic book—the *Treatise on Money* —attempting to work within the frameworks and models being used by other economists—was a confused muddle, and also a failure. Thus, as of the early 1930s, Keynes saw himself as a failure.

7.3.5. Withdrawal to Write His *General Theory*

Thus the 1930s saw a change of emphasis. Fewer short polemical articles were written. Instead, Keynes concentrated his attention on writing a book, a book which he thought:

> ...will largely revolutionize—not, I suppose, at once but in the course of the next ten years—the way the world thinks about economic problems. When my new theory has been duly assimilated and mixed with politics and feelings and passions, I can't predict what the upshot will be in its effects on actions and affairs. But there will be a great change…

Keynes asked, of the ideas he set forward in his big book, these questions:

> Is the fulfillment of these ideas a visionary hope? Have they insufficient roots in the motives which govern the evolution of political society? Are the interests which they will thwart stronger and more obvious than those which they will serve?…

And he answered that he was not a madman raving at the man, but that he actually had quite a good chance of changing the world:

> The ideas of economists and political philosophers, both when they are right and when they are wrong, 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. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.
>
> I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas. Not, indeed, immediately, but after a certain interval; for in the field of economic and political philosophy there are not many who are influenced by new theories after they are twenty-five or thirty years of age, so that the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest.
>
> But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil…

He was right. In the longer run Keynes did change the world. No more arrogant or more true words were ever written than Keynes's words above, written at the very end of his *General Theory of Employment, Interest and*

Money.

8. Reading the *General Theory*

8.1. What the General Theory Did

It is a mistake to think that Keynes's key contribution in the 1930s was to find a middle way between conservatism and socialism. Laissez-faire and conservatism promised individual freedom, but what good was individual freedom without prosperity—without the resources and incomes to make that freedom valuable? Central planning and socialism promised full employment, but what good was full employment without economic efficiency produced by good incentives to use resources wisely, and most important without the individual freedom that no collectivist economy has ever been able to create or preserve?

Keynes was very sharply critical of his own profession—of economists. He believed that economists had failed to understand how the economy really worked. He believed that they had taken a special case that was rarely attained, and took it for the general case that applied almost always.

And Keynes got really snarky against other economists: He compares the dominant bulk of economists to the Spanish Inquisition: "Ricardo conquered England as completely as the Holy Inquisition conquered Spain…" And then he accuses his fellow economists of a laundry list of sins:

- mystification: "conclusions quite different from what the ordinary uninstructed person would expect, added, I suppose, to… intellectual prestige…
- cruelty: "that… [the] teaching, translated into practice, was austere and often unpalatable, lent it virtue…"

- scholasticism: “a vast and consistent logical superstructure, gave it beauty…”
- obsequiousness to power: “explain[ing] much social injustice and apparent cruelty as an inevitable incident in the scheme of progress… change… likely on the whole to do more harm than good, commended… [them] to authority.
- obsequiousness to wealth: “afford[ing] a measure of justification to the free activities of the individual capitalist, attracted… the support of the dominant social force behind authority…”

Keynes found not a middle but a genuine Third Way. His proposals did not split the difference between the two main poles of politics. Instead, Keynes promised to achieve the benefits each of the traditional poles had claimed but had never been able to deliver. Keynes offered full employment without suppressing political and economic freedom—or efficiency—not by command but by adjustment, not by the government telling people what they must do, but rather by giving people opportunities to buy with government-created money and sell to satisfy government-provided demand.

Adam Smith believed that the system was a good one—if properly managed, and noted that it took a lot of management, hence the extraordinary length of Book V of Smith’s *Wealth of Nations.* Karl Marx believed that the system was good—only it could drive the technological progress and capital investment needed to make utopia realizable—and bad—incapable of producing an acceptable distribution of income, and capable of producing only ever-increasing poverty and ever-greater alienation and powerlessness—and becoming increasingly poisonous, but also bringing the millennium for the system was rapidly creating its own gravediggers.

Keynes was very different from both. Keynes believed that we constructed the system, and that if we thought clearly we could construct a better one.

There is a sense in which Smith and Marx are "structuralists": human beings do not really have any decisions to make in their systems—the systems drive them down a preset path determined by its own inner logic. Keynes, by contrast, believes that if we think clearly, we can act and build a better system.

Keynes believed that the system was not operating well: it produced employment instability, the resulting threat of poverty, inequality with no rhyme or reason or purpose, hobbled investment and unnecessarily slow growth. But, Keynes believed, the system required only what ought to be merely *technical* fixes.

Hence Keynes in his big book—most of it, at least—operates at a lower, more focused level than do Marx and Smith. Keynes's big book centers on how a few pieces of the economy work, and on how they mesh badly. Smith and Marx had overview of systems that cohered as a whole. Keynes looks at pieces that do not fit together terribly well.

Paul Krugman divides those who learn from Keynes into two groups: those who get their major inspiration from the start of the book—"Book Iers", focused on how the economy cannot be relied on to adjust itself to a desirable state after an economic shock—and those who get their inspiration from he middle—"Chapter 12ers", focused on human irrationality and herd behavior and how they destabilize even an economy that would function smoothly in their absence. I follow him, and I add a third division: those who agree with Keynes's view of the implications of his general theory for the organization of society.

8.2. “Book I”

8.2.1. Say’s Law and Its Refutation

Book 1ers see the heart of Keynes’s *General Theory* as the parts devoted to the refutation of Say’s Law.

Say’s Law is the idea that a “general glut” in which there is an excess demand for pretty much all produced commodities, and for labor too. Nobody, John Baptiste Say argued in 1803, sells without intending to buy. Thus you can have excess supply of one commodity—here in Berkeley, CA, too many yoga teachers with too many slots in yoga classes for demand to fill. But if you do then you have excess demand for some other commodity—here in Berkeley, CA, too many people wanting to drink lattes for the baristas to satisfy. Such a disequilibrium is real, but it is temporary: unemployed baristas look around for something to do, and retrain as yoga instructors; prices of lattes fall and prices of yoga lessons rise, so people curb their demand for inner piece and boost the amount of time they spend highly-wired on caffeine. The economic shifts in response to that eliminate disequilibrium make the economy better: move it into a configuration in which it is a better machine for using scarce physical and human resources to produce society’s happiness.

How then did believes in Say’s Law understand prolonged high unemployment? There were prolonged periods of high unemployment. Believers in Say’s Law believed that something was failing the market: wherever you have persistent excess supply of any commodity, it is because something is failing the market and keeping that commodity’s price too high. In the case of the commodity labor, its price is the real wage.

Thus believers in Say’s Law blamed high unemployment on something keeping real wages too high. And that something was the fault of workers or their unions: worker custom or union bargaining or worker imbecility or a failure to realize that the equilibrium price level had fallen or government largesse keeping the unemployed happy with their lot and thus failing to compete for jobs—had set wages too high for full employment. Break that market failure—wean people off of expectations of customary wages or break unions or educate workers to understand their proper lot in the market system or eliminate government programs that encouraged idleness—and pools of high unemployment would be sublimed away by the magic of the market.

It is a puzzle that there were believers in Say's Law by 1829. For Say himself then abandoned the idea, writing of the British financial panic of 1825 and depression of 1826:

> The Bank [of England]… to limit its losses… forced the return of its banknotes… cease[d] to discount commercial bills…. Commerce found itself deprived at a stroke of the advances on which it had counted, be it to create new businesses, or to give a lease of life to the old…. Businessmen… finding no more advances from the banker… sold goods for half what they had cost…. Every type of merchandise… sunk below its costs of production, a multitude of workers were without work…. Bankruptcies were declared among merchants and among bankers, who… could no longer find guarantees to cover their issues beyond the undertakings of individuals, many of whom had themselves become bankrupt...

At that very moment the young economist John Stuart Mill was putting his finger on the problem: What if people were to sell, but not to buy commodities made by labor, but rather to sell in order to increase their holdings of *good money* because they feared having to meet some future emergency demand? Then, Mill pointed out, the Say's Law logic simply would not work:

> There may be, at some given time, a very general inclination to sell with as little delay as possible, accompanied with an equally general inclination to defer all purchases as long as possible. This is always actually the case, in those periods which are described as periods of general excess…. There cannot be an excess of all other commodities, and an excess of money at the

> same time…. Those who have… affirmed… a general superabundance,… amounted to… money… in request, and all other commodities… in comparative disrepute…. The result is, that all commodities fall in price, or become unsaleable…

The real wage can be fine: can be at its fundamental equilibrium level. And yet there can be long-lasting large-scale mass unemployment because there is an excess demand for money and hence an excess supply of pretty much all produced commodities, and of labor.

A true believer in Say's Law might then say that the situation might be improved by a general deflation: suppose all prices and wages were marked down by 20% in terms of the economy's units of account; then the existing money in the economy would go 25% further, and more people could be set to work. But an expectation that money prices will decline is a spur that further increases the demand for money, and so widens that excess demand. And when prices fall those who have borrowed go bankrupt, and a fear that one's counterparties are or may become bankrupt is perhaps the greatest spur of all to an increase in the demand for cash. One can write down models of frictionless economies in which general deflation is an effective way of dealing with high unemployment. But there is no reason to think that such models have any purchase on the real world with debts and bankruptcies.

Yet there were and are economists of note and reputation—or I would have said before 2009 of note and reputation—who are still believers in Say's Law.

Consider the 24 signers of the November 2010 open letter to Ben Bernanke. At that time the U.S. unemployment rate was a highly elevated 9.8%. Ben Bernanke, as Chair of the Federal Reserve, thought that the cause of this high unemployment was John Stuart Mill's and Jean-Baptiste Say's "general glut": a shortage of and thus an excess demand for money, so he proposed "quantitative easing" to increase the economy's money stock. Reduce the excess demand for cash by supplying more of it, and some of the purchasing power that had been trying to acquire cash would be redirected, and that would put people to work and reduce unemployment. This would have been cutting-edge economics—back in 1829. But 180 years had passed since the principal economist who would have disputed it, Jean-Baptiste Say, had abandoned Say's Law. Yet the 24 wrote:

> The planned asset purchases…. We do not think they will achieve the Fed's objective of promoting employment…. Improvements in tax, spending and regulatory policies must take precedence in a national growth program, not further monetary stimulus…

Not all of them—in fact, few of them—were economists of (formerly) note and reputation. Apparatchiks, mouthpieces, and investors talking their book—that is how I would characterize most of the signers. But certainly Charles W. Calomiris, of Columbia, and Michael J. Boskin, Ronald I. McKinnon, John B. Taylor had powerful academic reputations to burn, and by signing this letter they burned them—unless, of course, their allegiance to Say's Law here was not, as it was for other signers, an act of fealty to their political masters but rather something they genuinely believed. But why? Why would they think that the sudden rise in unemployment from 4.5% in early 2007 to 9.8% in late 2010 was due to deteriorations in "tax, spending, and regulatory policies" that had suddenly left the economy with too-high a real wage, and thus a large excess supply of labor?

It is not clear to me. It is clear that Keynes back in 1936, when he wrote the *General Theory*, faced a lot of economists who—like Boskin, MacKinnon, and Taylor of Stanford; and like Calomiris of Columbia—did believe in Say's Law. And Keynes spent Book I of the *General Theory* trying to make it very difficult for anybody ever in the future to believe in Say's Law again. He was not completely successful. But he made a good go. And he made a good go by asking and answering the question: What does determine the overall level of employment, if not the level at which the marginal product of labor to employers equals the marginal opportunity cost of working to employees?

The standard way of thinking about a market is that you have a situation of excess supply if and only if the price of the commodity is "too high" for equilibrium. And it is very natural for an economist to think that mass unemployment must be the result of a real wage that is in some way stuck "too high" by either psychological or sociological forces. After writing his *Treatise on Money* Keynes became convinced that this was an unhelpful and unproductive way of thinking about the problem. As he wrote at the end of the *General Theory's* preface:

> When I began to write my *Treatise on Money* I was still moving along the traditional lines of regarding the influence of money as something so to speak separate from the general theory of supply and demand…. [In] this book… a monetary economy… is essentially one in which changing views about the future are capable of influencing the quantity of employment and not merely its direction…. Our method of changing ideas about the future is one which depends on the interaction of supply and demand, and is in this way linked up with our fundamental theory of value. We are thus led to a more general theory, which includes the classical theory with which we are familiar, as a special case…. The composition of this book has been for the author a long struggle of escape, and so must the reading of it be for most readers if the author's assault upon them is to be successful,—a struggle of escape from habitual modes of thought and expression. The ideas which are here expressed so laboriously are extremely simple and should be obvious. The difficulty lies, not in the new ideas, but in escaping from the old ones, which ramify, for those brought up as most of us have been, into every corner of our minds…

Keynes thus attempted—with great, but not complete, success—to upset the gaming table, so that people would thereafter look not at the level of the real wage relative to its full-employment equilibrium level in order to understand mass unemployment, but would look rather at what he called *effective* and we call *aggregate demand.*

8.2.2. The Classical Theory of Employment

But first Keynes ,starts with what he calls the “classical” theory of employment and unemployment, and he demolishes it.

The classical theory of employment was that the real wage was an equilibrating price that balanced supply-and-demand in the labor market. It set business demand when there was full employment to employ workers (at that real wage) to workers’ willingness (at that real wage) to forego other, non-market activities and seek employment. Frictional unemployment—people moving from job to job, entering the labor force, or trying and failing to find a job they were willing to take before exiting the labor force—were a normal part of economic life just as goods in inventory on the shelf were a normal part of other markets. But persistent, high unemployment, according to the classical theory, signified that something had gotten the real wage stuck at the wrong value: it was too high because of union monopoly power, government regulation, stubborn customs, or worker irrationality. And classical economics did not inquire what mass unemployment did to businesses’ demand for labor.

In this classical theory, he writes:

> [The] two categories of 'frictional' unemployment and 'voluntary' unemployment are comprehensive. The classical postulates do not admit of the possibility of… 'involuntary' unemployment…. It would follow from this that there are only four possible means of increasing employment: (a) an improvement in organisation or in foresight which diminishes 'frictional' unemployment; (b) [an increase in labor supply,] a decrease in the marginal disutility of labour, as expressed by the real wage for which additional labour is available… [or an increase in labor demand, via] (c) an increase in the marginal physical productivity of labour in the wage-goods industries (to use Professor Pigou's convenient term for goods upon the price of which

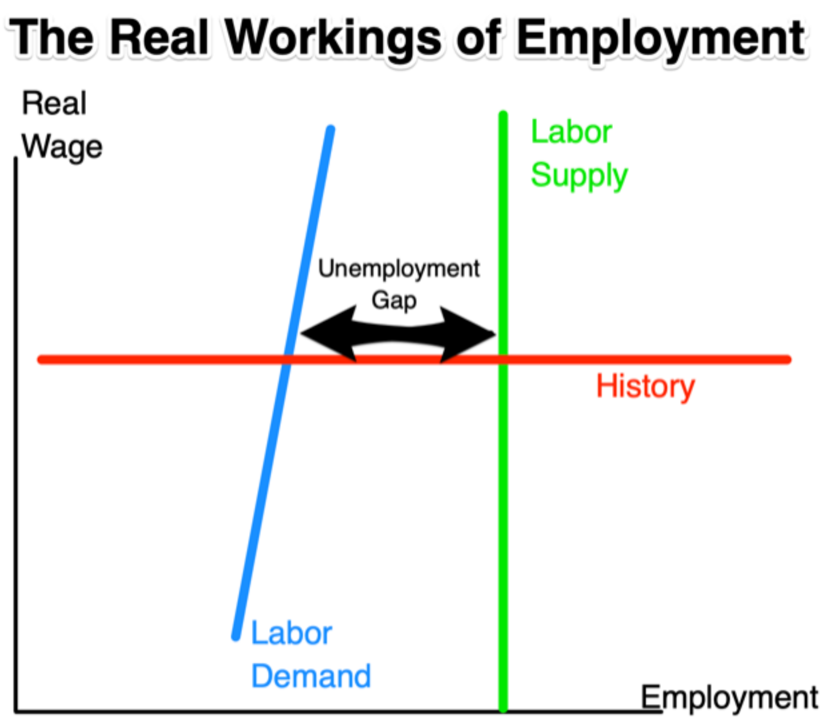
> the utility of the money-wage depends); or (d) an increase in the price of non-wage-goods compared with the price of wage-goods, associated with a shift in the expenditure of non-wage-earners from wage-goods to non-wage-goods. This, to the best of my understanding, is the substance of Professor Pigou's *Theory of Unemployment*—the only detailed account of the classical theory of employment which exist…

He casts doubt on the classical theory's relevance, and its assumption that employment is determined by the balance of supply and demand at the equilibrium real wage, by pointing out that in the real world in which we live the real wage jumps up and down without any noticeable effects on employment:

> Ordinary experience tells us, beyond doubt, that a situation where labour stipulates (within limits) for a money-wage rather than a real wage, so far from being a mere possibility, is the normal case. Whilst workers will usually resist a reduction of money-wages, it is not their practice to withdraw their labour whenever there is a rise in the price of wage-goods…. Whether logical or illogical, experience shows that this is how labour in fact behaves. Moreover, the contention that the unemployment which characterises a depression is due to a refusal by labour to accept a reduction of money-wages is not clearly supported by the facts. It is not very plausible to assert that unemployment in the United States in 1932 was due either to labour obstinately refusing to accept a reduction of money-wages or to its obstinately demanding a real wage beyond what the productivity of the economic machine was capable of furnishing. Wide variations are experienced in the volume of employment without any apparent change either in the minimum real demands of labour or in its productivity. Labour is not more truculent in the depression than in the boom—far from it. Nor is its physical productivity less. These facts from experience are a prima facie ground for questioning the adequacy of the classical analysis…

8.2.3. Aggregate Demand

Then Keynes turns, in chapter 3, to his principle of effective demand. The government spends to buy goods and services produced by workers. Net exports amount on net to a positive or negative spending demand to buy goods and services produced by workers. Businesses and entrepreneurs eager to increase the economy's capital stock of machines, buildings, and goods-in-process spend to buy goods and services produced by workers.



Add up these three spending flows and call them D_2. Add to this the spending flow D_1 from households seeking to buy consumption goods and services, noting that this consumption D_1 is a function of the total level of employment N: $D_1 = \chi(N)$. Call this total spending flow $D = D_1 + D_2$. This total spending flow D will employ N workers according to the function: $D = \varphi(N)$. Hence:

$\phi(N) - \chi(N) = D_2$

As Keynes puts it:

> Employment in equilibrium depends on (i) the aggregate supply function [$\phi()$], (ii) the propensity to consume [$\chi()$], and (iii)… D_2. This is the essence of the General Theory of Employment…

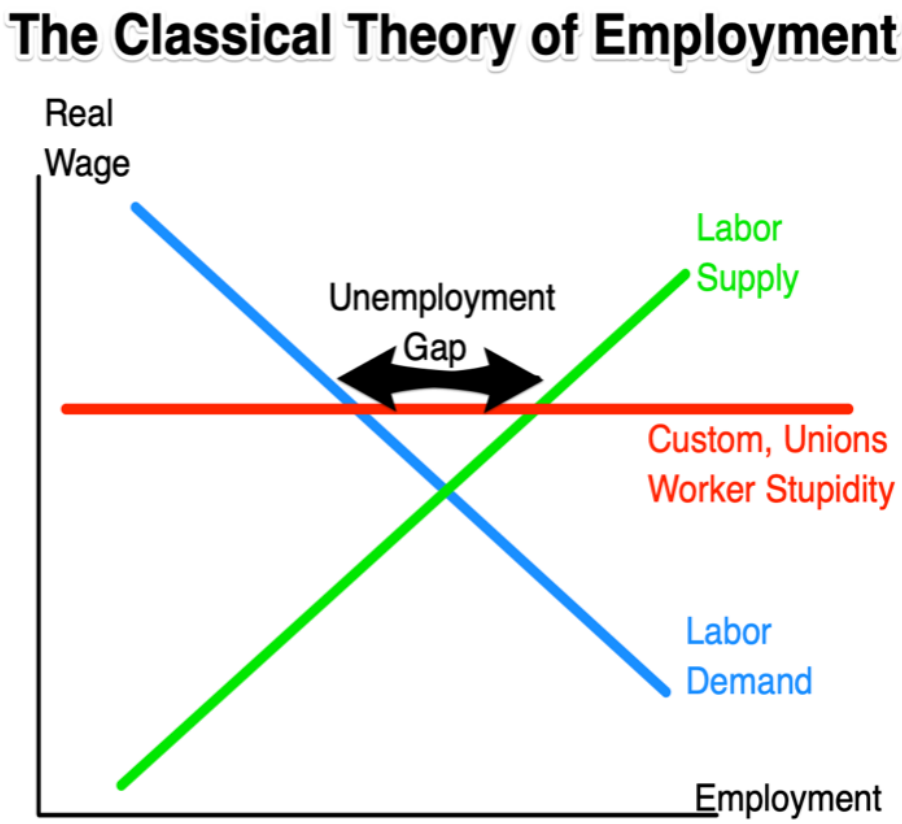
With a powerful influence exerted on D_2 by the interest rate r via the influence on the interest rate on businesses' and entrepreneurs' spending on investment to expand the capital stock of machines, buildings, and work-in-progress. Hence the theory of *employment* can only be complete when a theory of the rate of *interest* is added to it. And then it will turn out that the rate of *interest* in turn depends on the stock of *money*. Hence the title of the book.

We tend to write instead:

$Y = C + I(r) + G + NX$
$C = c_o + c_y Y$
$Y = (c_o + I(r) + G + NX)/(1-c_y)$
$N = N(Y)$

But it is much the same: Demand for labor depends not on the real wage, but rather on the level of demand and hence production Y, which is determined by demand by foreigners (NX), demand by government (G), the confidence of consumers (c_0), consumers' average propensity to raise or cut spending when their incomes rise or fall (c_y), and business's optimism and confidence and animal spirits I as influenced by the real interest rate r.

Where in this is there room for labor market supply-and-demand to set the overall level of employment? How is a fall in the real wage supposed to bring supply and demand for labor into balance and eliminate the



unemployment gap. The classical theory would have us think that the right diagram to draw is this one above.

Labor supply does not have much of a slope—it is foolish to imagine that the bulk of workers are eager to switch from paid work to doing other things in response to small shifts in their real wages: most workers work, or at least want to work, until they want to retire. So the classical argument must hinge on the labor demand curve having a significant slope: that a reduction in real wages would trigger changes in c_0, I, and r that would push up aggregate demand Y, and hence push up production and labor demand N. So what are these changes, and how are they triggered?

The argument this has to be that a general excess supply of labor will put downward pressure on nominal wages. That will then put downward pressure on nominal prices. That would mean that money would buy more, so it would become less scarce, so that the liquidity premium would decline, and so interest rates would fall. Plus the fall in real wages would raise expectations of future profits. These two—lower interest rates and higher expected profits—would boost investment, which would boost spending, which would boost production, which would boost employment.

But falling prices usually depress, not raise expectations of future profitability. And how do real interest rates fall, exactly? What makes the liquidity premium fall when prices are falling and, presumably, bankruptcy risks are rising? Try to think through how it is that declines in real wages are supposed to eliminate the unemployment gap when aggregate demand is itself variable, and you wind up with a picture of the labor market like this:

Labor demand may even slope the wrong way—as the processes that reduce real wages also shrink aggregate demand. It is only if something is going on in the background to keep aggregate demand at its full employment level that one can count on having the normal supply-and-demand graph for the labor market and employment as a whole.

Thus Keynes has arrived at his big question: How are the sub-determinants of aggregate demand themselves determined, and what ought the government to be doing to keep aggregate demand at its full-employment level? The government ought to be doing something. The market left to its own will not shift aggregate demand back to its full-employment level—at least not in anything but “the long run”.

8.2.4. Blame Ricardo

Chapter 3 closes by blaming the previous ignorance of economists about these issues on early nineteenth-century British economist David Ricardo. At the start of the nineteenth century, as Keynes tells the story, there was the possibility of developing the theory that Keynes is about to develop, but Ricardo was so persuasive and Malthus had intuitions but no model, and so Ricardo shut it down:

> Malthus… vehemently opposed Ricardo's doctrine that it was impossible for effective demand to be deficient; but vainly. For…Malthus was unable to… furnish an alternative construction; and Ricardo conquered England as completely as the Holy Inquisition conquered Spain…. The great puzzle of effective demand with which Malthus had wrestled vanished…

Indeed, Malthus sounds quite convincing to me in his criticisms at the start of the 1820s of Ricardo's and Say's belief at that time that excess supply of one set of commodities and of the workers who produced them must be matched by excess demand for another set, and for the workers who produced them:

> We hear of glutted markets, falling prices, and cotton goods selling at Kamschatka lower than the costs of production…. It is a tenet of the new doctrine… that if one trade be overstocked… it is a certain sign that some other trade is understocked…. Where, I would ask, is there any considerable trade that is confessedly under-stocked… [with] high profits…. Though the removal of capital [from an industry in oversupply] generally occasions some partial loss, yet it is seldom long in taking place, if it be tempted to remove by great demand and high profits…

I must say, I find Malthus very convincing here.

So Keynes then brings the maximum snark to bear against Ricardo:

> The completeness of the Ricardian victory is something of a curiosity and a mystery…. That it reached conclusions quite different from what the ordinary uninstructed person would expect, added, I suppose, to its

> intellectual prestige. That its teaching, translated into practice, was austere and often unpalatable, lent it virtue. That it was adapted to carry a vast and consistent logical superstructure, gave it beauty. That it could explain much social injustice and apparent cruelty as an inevitable incident in the scheme of progress, and the attempt to change such things as likely on the whole to do more harm than good, commended it to authority. That it afforded a measure of justification to the free activities of the individual capitalist, attracted to it the support of the dominant social force behind authority…

Before warning his fellow economists that their inability to forecast or understand the world, yoked to their eagerness not to afflict the comfortable, has been noted:

> But although the doctrine itself has remained unquestioned by orthodox economists up to a late date, its signal failure for purposes of scientific prediction has greatly impaired, in the course of time, the prestige of its practitioners…. The ordinary man has not failed to observe… [and is] unwilling… to accord to economists that measure of respect which he gives to other groups of scientists whose theoretical results are confirmed by observation….

Before warning his fellow economists that their inability to forecast or understand the world, yoked to their eagerness not to afflict the comfortable, has been noted:

> The celebrated optimism of traditional economic theory… is also to be traced,… to their having neglected… effective demand…. It may well be that the classical theory represents the way in which we should like our economy to behave. But to assume that it actually does so is to assume our difficulties away…

8.3. Expectations, Finance & Investment

8.3.1. Expectations

Keynes was the first major economist to focus on how much of economic behavior depends on *expectations*: the short-period expectation of firms currently operating concerning how much they can sell, and the long-period expectations of businesses and financiers seeking to determine how profitable it would be to invest in expanding the capital stock.

Thus production can jump up or down as firms' short-period expectations change, and those upward or downward jumps will be largely validated by their own consequences. A decline in production will lead businesses to fire workers, and their lost incomes will then reduce spending to leave each business happy that it had not kept production at the previous level—for if it had, it would find itself confronting a great deal of unsold and unsellable inventory. Thus these changes in short-term expectations are not quickly brought back to fundamental reality by market forces: the market, largely, validates rather than curbs them.

Thus investment can jump up or down as businesses' and financiers' long-period expectations change. And while changes in short-period expectations are largely self-validating, changes in long-period expectations are unvalidatable:

> It is of the nature of long-term expectations that they cannot be checked at short intervals in the light of realised results…

How then does one even form long-period expectations, given that they cannot be checked against reality and that there is very little information on which to base a rational forecast? The conventional economics of expectations says that if you learn little the forecast should not change very much, and so if there is little to learn the forecast should be very close to its initial zero-information value: without information, the forecast of every variable should be at its neutral value and should not change over time. But this begs the question: what are these "neutral" values of zero-information forecasting? How does a forecaster arrive at them?

Keynes believed that in the absence of a secure empirical or mathematical foundation for calculating probabilities, we needed to return to grounding them in human psychology. And, Keynes argued, it is a fact of human psychology that forecasts of variables of which little is known are "liable to sudden revision" and can never "be even approximately eliminated or replaced by realized results". Instead, Keynes argued, long-period expectations are subject to sudden revisions as changes in the little information there is provokes large changes in guesses about "neutral" values:

> The outstanding fact is the extreme precariousness of the basis of knowledge on which our estimates of prospective yield have to be made. Our knowledge of the factors which will govern the yield of an investment some years hence is usually very slight and often negligible. If we speak frankly, we have to admit that our basis of knowledge for estimating the yield ten years hence of a railway, a copper mine, a textile factory, the goodwill of a patent medicine, an Atlantic liner, a building in the City of London amounts to little and sometimes to nothing; or even five years hence…

And long-period expectations place too great a weight on the guess that what is happening now will continue to happen in the future, as that is the only solid ground on which to base a forecast:

> It would be foolish, in forming our expectations, to attach great weight to matters which are very uncertain. It is reasonable, therefore, to be guided to a considerable degree by the facts about which we feel somewhat confident, even though they may be less decisively relevant to the issue than other facts about which our knowledge is vague and scanty. For this reason the facts of the existing situation enter, in a sense disproportionately, into the formation of our long-term expectations; our usual practice being to take the existing situation and to project it into the future, modified only to the extent that we have more or less definite reasons for expecting a change…

If Keynes were here today, looking at economists who include in their models long-run forecasts that are stable and equal to the "neutral" positions of economic variables, he would say that they have completely missed the point. “Neutral” positions can be estimated only by looking back at the history of realized results and assuming that the future will be like the past, and if we know anything about modern industrial economies it is that the future will not be like the past. Expectations, Keynes would say, should be modeled as erratic and changeable extrapolations of the present. And the fact that they are erratic and changeable is a major disturbing factor in the economy.

8.3.2. Financial Markets

But in fact things are worse. A classical economist would say that financial markets exist to aggregate up individuals’ expectations of the long period and then transmit those expectations, in the form of asset prices, to the rest of the economy. But, Keynes argues, it is not clear that traders in financial markets are in the business of making and then acting upon forecasts of what will happen in the long period:

> In fact, those who seriously attempt to make any such estimate [of prospective yield on the basis of knowledge] are often so much in the minority that their behaviour does not govern the market…

Instead, we have a:

> battle of wits to anticipate the basis of conventional valuation a few months hence…. Nor is it necessary that anyone should keep his simple faith in the conventional basis of valuation having any genuine long-term validity. For it is, so to speak, a game of Snap, of Old Maid, of Musical Chairs—a pastime in which he is victor who says Snap neither too soon nor too late, who passed the Old Maid to his neighbour before the game is over, who secures a chair for himself when the music stops. These games can be played with zest and enjoyment, though all the players know that it is the Old Maid which is circulating, or that when the music stops some of the players will find themselves unseated…

A great deal of this is the result of the kinds of people who find themselves attracted to careers in asset trading. Very few are capable of being patient for years and decades in the face of fluctuating asset prices. Rather, Keynes says:

> life is not long enough;—human nature desires quick results, there is a peculiar zest in making money quickly, and remoter gains are discounted by the average man at a very high rate. The game of professional investment is intolerably boring and over-exacting to anyone who is entirely exempt from the gambling instinct; whilst he who has it must pay to this propensity the appropriate toll…

"The appropriate toll": financiers *will* be people with relatively short time horizons. And there is no warrant in economic theory for believing that a chain of asset holders from now into the far future will act like a single long-horizon investor, or like an investor making rational investment decisions for society as a whole.

The Fidelity mutual funds tried, so the story goes, as part of their advertising campaign to create a description of the kind of person who did best with their investments in the Fidelity mutual funds. They, or so the story goes, dropped the project when they found out that those who did best were those who had forgotten that they had a Fidelity account, and so did not trade it.

There are counterarguments. There is the counterargument that long run-oriented rational investors who understand fundamentals will earn higher returns than noise traders whose purchases and sales are effectively random, and so in the long run the long run-oriented rational investors who make the most money will dominate the market. But, Keynes says:

> There is no clear evidence from experience that the investment policy which is socially advantageous coincides with that which is most profitable. It needs more intelligence to defeat the forces of time and our ignorance of the future than to beat the gun.

And Keynes is right. Leaving aside whether one should trust in the “long run”, those whose wealth share is increasing in the market are those who take on excessive risk. And the presence of those who take on excessive risk in fact, by virtue of the risk that their near-random purchases and sales adds to market investments, drive out those who are rationally averse to risk. Moreover, those who focus on the short run can leverage up and use borrowed money to invest on a larger scale.

The net effect is that financial markets do not do their job:

> Professionals… are… largely concerned… with foreseeing changes in the conventional basis of valuation a short time ahead of the general public…. It is not sensible to pay 25 for an investment of which you believe the prospective yield to justify a value of 30, if you also believe that the market will value it at 20 three months hence…. This is the inevitable result of investment markets organised with a view to so-called "liquidity". Of the maxims of orthodox finance none, surely, is more anti-social than the fetish of liquidity.… It forgets that there is no such thing as liquidity of investment for the community as a whole. The social object of skilled investment should be to defeat the dark forces of time and ignorance which envelop our future. The actual, private object of the most skilled investment to-day is "to beat the gun", as the Americans so well express it, to outwit the crowd, and to pass the bad, or depreciating, half-crown to the other fellow…

And so:

> As the organisation of investment markets improves, the risk of the predominance of speculation does, however, increase. In… New York, the influence of speculation (in the above sense) is enormous…. Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done. The measure of success attained by Wall Street, regarded as an institution of which the proper social purpose is to direct new investment into the most profitable channels in terms of future yield, cannot be claimed as one of the

> outstanding triumphs of laissez-faire capitalism—which is not surprising, if I am right in thinking that the best brains of Wall Street have been in fact directed towards a different object…

8.3.3. Investment and Animal Spirits

There is, in Keynes's view, no warrant for believing that long-period expectations will be sober, rational, stable assessments of the uncertain future dominated by time and ignorance. There is, in Keynes's view, no warrant for believing that financial markets aggregate up those expectations in a sensible way. Thus there is no reason to believe that the asset prices and costs of capital fed to the real economy by financial markets do their job of indicating the benefits to society of different kinds of investments in companies and capital. But there is more. In Keynes's view, people are moved to action more by hope than by calculation:

> A large proportion of our positive activities depend on spontaneous optimism rather than on a mathematical expectation.… Enterprise only pretends to itself to be mainly actuated by the statements in its own prospectus, however candid and sincere. Only a little more than an expedition to the South Pole, is it based on an exact calculation of benefits to come. Thus if the animal spirits are dimmed and the spontaneous optimism falters… enterprise will fade and die…

The phrase Keynes likes to use is "animal spirits": investment and enterprise are a result of the "animal spirits" of those making business decisions. For someone like Keynes who had been brought up in late Victorian-Edwardian England, "animal spirits" were what led schoolboys —emphasis on the *boys*—to disrupt the order of the school in an amusing and annoying way. They drive dynamism and leadership along with a lack of caution, heedlessness, and recklessness, as John Coates develops in his *The Hour Between Dog and Wolf: Risk-Taking, Gut Feelings and the Biology of Boom and Bust.*

“Animal Spirits” sometimes go under another name: the fabled “business confidence”. And here Keynes sneers at his fellow economists who have:

> not analysed it carefully and have been content, as a rule, to discuss it in general terms…

while:

> The state of confidence, as they term it, is a matter to which practical men always pay the closest and most anxious attention…

And economists should have paid great attention to it because *confidence* is an:

> important influence on the schedule of the marginal efficiency of capital… one of the major factors determining… [it,] which is the same thing as the investment demand-schedule…

Keynes has thus arrived at the conclusion that investment demand—businesses’ and entrepreneurs’ spending on purchasing and installing new capital equipment, all of machines, buildings, and work-in-progress in the value chain—depends on three factors:

1. The “animal spirits” or “confidence” of business.
2. The state of long-period expectation.
3. The bullishness or bearishness of financial markets.

None of these are closely linked to “defeat[ing] the dark forces of time and ignorance which envelop our future” in order to guide the proportion of its resources society saves and devotes to investment in the future to some optimal level. All are subject to wild fluctuations with little or no basis in any sort of reasonable “fundamentals”.

But Keynes has still one more factor to discuss. The three above simply tell us what the level of investment spending would be for a given cost of capital to businesses—for a given configuration of interest rates. So Keynes now turns to his analysis of what determines the interest rate. And this is the "interest and money" part of the book.

8.3.4. Money and Interest

The classical theory of employment was that the real wage was an equilibrating price that balanced supply-and-demand. Persistent, high unemployment, according to the classical theory, signified that something had gotten the real wage stuck at the wrong value: it was too high because of union monopoly power, government regulation, stubborn customs, or worker irrationality. And classical economics did not inquire what mass unemployment did to businesses' demand for labor. Keynes argued that the real wage was not such an equilibrating price: that there could be lots of unemployment even if the real wage was at or below the level at which the labor supply curve crossed where the labor demand curve would be at full employment.

The classical theory of interest was that the interest rate was the equilibrating price that balanced the full-employment savings of the economy to the desired investment spending that businesses and entrepreneurs thought would profitably boost the capital stock. If the interest rate was too high, desired savings at full employment would be higher than investment spending, and businesses would find that they could borrow on better terms by going to some lending bank or some bond-buying investors different from those they usually used: then their usual counterparties would be forced to match the more attractive terms, and the interest rate would fall to its equilibrium. If the interest rate was too low, desired savings at full employment would be less than investment spending, and some businesses would find that they could not borrow from their usual counterparties: they would be forced to offer more attractive terms, and the interest rate would rise to its equilibrium. And classical economics did not inquire what mass unemployment would do to savings or to investment.

Keynes pointed out that this classical theory could not be the right model for the interest rate:

> The rate of interest cannot be a return to saving… as such. For if a man hoards his savings in cash, he earns no interest, though he saves just as much as before…. The rate of interest is the reward for parting with liquidity for a specified period… a measure of the unwillingness of those who possess money to part with their liquid control over it. The rate of interest is… the 'price' which equilibrates the desire to hold wealth in the form of cash with the available quantity of cash…

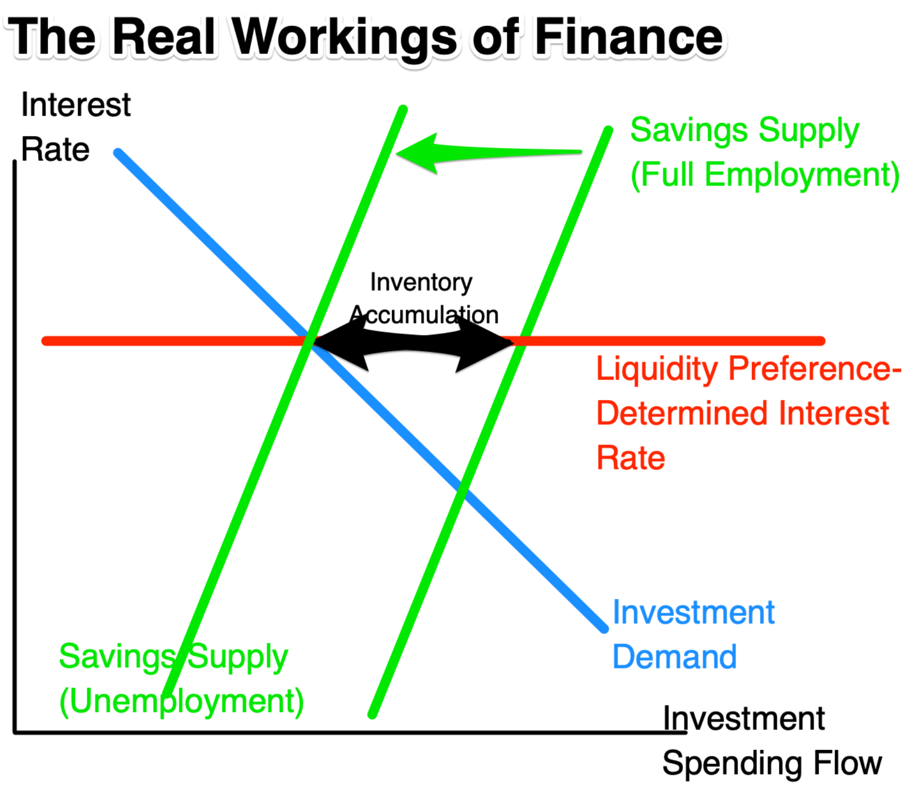
When people decide how to spend their income, they first decide how much of their income to spend buying consumption goods, and how much to save. They then decide how much of their savings to invest in illiquid interest- and profit-earning assets, and how much to hold an interest-free but liquid cash. People hold their savings in cash for three reasons:

1. If they want to preserve the option to spend it to buy consumption goods immediately, rather than and having to postpone their purchases while they sell other assets to raise liquidity.
2. If they think that other interest- and profit-earning assets are about to fall in price, and they want to be able to snap up bargains when they emerge.
3. If they think that the interest- and profit-earning assets on offer are simply too risky for them to hold.

The interest rate is thus not primarily the price at which people trade-off spending on their consumption now versus saving and investing and then spending on their consumption in the future. The interest rate is the price that balances households' and businesses' liquidity preference with the cash money provided by the institutional workings of the banking system, as regulated by the central bank (in a modern fiat-moneyeconomy) or by the outstanding stock of monetary gold and silver (under a full gold or silver standard).

The classical theory might have been able to accommodate all of Keynes's structures about psychology, expectation, speculation, and confidence. Yes, those would have made businesses' and entrepreneurs' investment demand jump around a lot. But there would still be, at each moment in time, an equilibrium interest rate that balanced full-employment savings with investment demand at column climate. And a well-functioning market would have gotten the economy there, or kept it there. After all, interest rates are not sticky in any sense: they react to economic news in seconds.

So what happens if the market interest rate is higher than the rate at which savings (at full employment) balances investment spending? Planned investment spending is then lower than planned savings, and production of consumer goods is then lower than planned consumption spending by households. Some of the consumption goods produced are not sold, and have to be added to businesses' inventories. Some savings do not find investment projects, but rather find themselves used by businesses to finance their unwanted and unexpected boost to inventories. But as inventories rise, firms cut back on production: they fire workers. They fired workers' incomes shrink. And as economy-wide incomes shrink, savings shrink as well. The savings-supply curve moves to the left as incomes fall and unemployment rises, until savings given the high level of unemployment equal the demand for investment spending at that liquidity preference-determined interest rate.
Yes, savings equals investment, but not because the interest rate has adjusted to make investment spending equal to planned savings at full employment. Rather, savings equals investment because employment and income have fallen to reduce savings below the planned full-employment level to the level consistent with investment spending.



8.4. Summarizing the *General Theory*

Part I of the *General Theory of Employment, Interest and Money* argued that the labor market did not work with the real wage adjusting to equilibrate labor demand by businesses with labor supply at full employment. Rather, labor demand was determined by the number of workers needed to produce goods to satisfy effective or aggregate demand. If that was less than labor supply, tough luck for the unemployed workers who could not find jobs.

The classical theory held that high, persistent unemployment was only possible if something—union monopoly, custom, worker irrationality, some other form of "stickiness"—kept the real wage "too high" for full employment. Keynes said that there could be high, persistent employment if the real wage was higher than its value at full employment, if the real wage was at its value at full employment, or if the real wage was lower than its value at full employment: what mattered was aggregate demand.

Moreover, Keynes argued that in a situation of high unemployment a reduction in the real wage would do little good, and might well do harm. A fall in nominal wages would carry with it a fall in the nominal prices at which business sold their production. That would magnify the burden of the debt on businesses, and magnify the number of bankruptcies. Investors who own shares in or are creditors of bankrupt investors and workers employed by bankrupt firms lose their incomes: it is, Keynes thought, quite possible that a reduction in real wages would not close but increase the gap between labor demand *at the actual level of aggregate demand* and labor supply.

Keynesians who focus on this aspect of the *General Theory*—that the labor market does not work to set employment equal to full-employment labor supply, bur rather that aggregate demand works to set employment wherever it chooses—are those that Paul Krugman calls "Book Ier" Keynesians. Their mantra is: if the economy is not at full employment, you cannot count on any labor-market equilibrating processes to get it back to full employment, at least not in anything other than some theoretical "long run" that we never see in the real world.

Chapter 12 and its surrounding chapters in the *General Theory* argue that financial markets do not work with the interest rate being an equilibrating price that balances businesses' and entrepreneurs' demand for funds to finance investment spending that raises the capital stock with full-employment planned savings. Rather, the interest rate is determined by the balance of the liquidity preference of firms and households with the money supply as determined by the institutions of the banking system regulated by the central bank or by the working metallic monetary standard. An excess of planned full-employment savings over businesses' and entrepreneurs' investment demand generates not a fall in interest rates but a fall in production and incomes. This fall continues until actual high-unemployment savings equal businesses' and entrepreneurs' investment demand. And businesses' and entrepreneurs' investment demand is an extraordinarily volatile function of long-period expectations, financial market-generated bullishness and bearishness, and fluctuations in "animal spirits" that there will be large shocks to aggregate demand.

Keynesians who focus on this aspect of the *General Theory*—that psychology, expectations, and financial market institutions guarantee large shocks to investment spending; that these shocks are not damped by an interest rate rapidly equilibrating investment demand and planned full-employment savings; and that these shocks drive large shifts in the level of aggregate demand—are those that Paul Krugman calls "Chapter 12er" Keynesians. Their mantra is: psychological, expectational, and financial-institutional factors shock the economy so frequently an so substantially that it really does not matter whether there are equilibrating processes getting the economy back to full employment—they do not have time to work here in the real world.

There are thus important labor market failures, important failures of financial markets considered as societal devices for balancing investment and full-employment savings, important failures of financial markets as investment valuation mechanisms, plus instability in human psychology that leaves deciding on society's level of investment spending to the unregulated private market a bad idea—"when the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done". A classical economist would say: the economy should be, or should rapidly return to, a position of full employment with a healthy level of investment. A neoclassical economist would say: let's figure out what deviation from a well-working market economy is causing this problem of high mass unemployment, and figure out how either to reform the market to eliminate or to use policies to compensate for this market failure.

Keynes says different.

Keynes says: there are many market failures here, and they are all important. Keynes says: taking the *special* theory in which the market economy is well-functioning, and building a theory of unemployment by analyzing one deviation from perfect-market assumptions—one market failure—at a time will not get us a proper theory of employment. Rather, we need a *general* theory with all of the macroeconomically-important market failures included in its foundations. And that *general* theory will, it turns out, have to be a theory of the *interest* rate as well, which requires a proper liquidity preference-based theory of the *money* market. In short:

> Our criticism of the accepted classical theory of economics has consisted not so much in finding logical flaws in its analysis as in pointing out that its tacit assumptions are seldom or never satisfied, with the result that it cannot solve the economic problems of the actual world…

Hence, in Keynes's view, the need to change the baseline from which economists think.

There is, moreover, a bunch else in the *General Theory of Employment, Interest and Money*: besides what the Book Ier (chapters 1, 2, and 3) and Chapter 12ers (chapters 5, 11, 12, 13, 14, 15 and 16):

- There is an attempt to define his target: the "classical economics" that he is trying to wean his intended audience—professional economists—away from (chapters 1, 2, 14, and 19 appendix).

- An attempt to avoid aggregation and index number problems by working with (a) numbers of employed (and unemployed) workers, (b) nominal flows of spending, (c) deflated only by the nominal wage (chapter 4).
- Definitions and workings of what effective or aggregate demand is, exactly (chapters 6 and 7).
- The consumption function: how shocks to investment are amplified into larger shocks in demand, production, income, and employment (chapters 8, 9, and 10)
- The relationship between demand and employment (chapter 20)
- Inflation and the limits of monetary policy (chapter 21)
- How the *General Theory* explains the business cycle (chapter 22)
- Past anticipators of the *General Theory* (chapter 23)
- The complete theory (chapters 17 and 18)
- And moral philosophy: (chapter 24)

This last deserves to be considered at greater length.

8.5. The *General Theory* & Political Economy

Keynes thought that the implications of his theory were "moderately conservative". If his theory were true, he thought, then fixing the broken post-World War I world should be relatively easy and straightforward:

> The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes…

He thought that understanding and basing policy on his *General* Theory would solve both of them.

8.5.1. The *General Theory* & Inequality

Consider, first, Keynes's strong desire to curb inequality. Not that Keynes was in any sense a leveler or an egalitarian:

> I believe that there is social and psychological justification for significant inequalities of incomes and wealth, but not for such large disparities as exist to-day. There are valuable human activities which require the motive of money-making and the environment of private wealth-ownership for their full fruition…

Indeed, for Keynes, the alternative to inequality in wealth was a much more poisonous inequality in power. In this, Keynes was positively Smithian:

> Moreover, dangerous human proclivities can be canalised into comparatively harmless channels by the existence of opportunities for money-making and private wealth, which, if they cannot be satisfied in this way, may find their outlet in cruelty, the reckless pursuit of personal power and authority, and other forms of self-aggrandisement. It is better that a man should tyrannise over his bank balance than over his fellow-citizens…

But Keynes did strongly believe that the inequalities he saw in the world around him were unnecessary, obscene, and stupid:

> But it is not necessary for the stimulation of these activities and the satisfaction of these proclivities that the game should be played for such high stakes as at present. Much lower stakes will serve the purpose equally well, as soon as the players are accustomed to them…

Four years ago Thomas Piketty wrote a book, *Capital in the Twentieth Century*, in which he focused on the relationship between r, the real rate of interest and profit in an economy, and g, the rate of growth in the economy. When $r > g$, the wealth of the superrich compounds faster than the economy grows. The superrich's holdings thus become more and more salient in the economy. And the superrich can spend amply to achieve their goals without impairing their capital. They thus, directing production via their spending and managing humans via their employing, truly become an economic ruling class—and their increasing wealth means that they can probably buy the government as well. By contrast, when $r < g$, the wealth of the superrich will decline in salience over time—and if they try to exert their social power via spending, the salience of their wealth will decline even faster.

Keynes made what I regard as a Pikettian argument, for he noted that pursuing full employment along the lines that the *General Theory* argued would be effective required boosting the money stock and lowering interest rates in order to match investment demand to savings at full employment. And he argued that there was nothing solid to the argument that the economy needed a high interest rate to call forth savings. His theory, Keynes maintained, showed that the economy did not as a rule need more savings—that it was much more likely that there would be a savings glut than a savings deficit. Thus while:

> the justification for a moderately high rate of interest has been found hitherto in the necessity of providing a sufficient inducement to save…. [We see that] it is to our best advantage to reduce the rate of interest to that point relatively to the schedule of the marginal efficiency of capital at which there is full employment. There can be no doubt that this criterion will lead to a much lower rate of interest than has ruled hitherto…. This would not mean that the use of capital instruments would cost almost nothing, but only that… the aggregate return from durable goods in the course of their life would… just cover their labour-costs of production plus an allowance for risk and the costs of skill and supervision…

History since 2000 has certainly suggested that Keynes was right. We cannot now see any time in the future in which the global economy will be short of, and in need of more savings.

But with interest rates near zero, the plutocrats will have little social power. Or, rather, they can only exert social power by spending their principal, and in that process destroy it. An economy run along the lines needed to generate full employment would thus be one in which not only would mass high unemployment no longer be a danger, but the excessive power of plutocracy would be gone, and plutocracy itself would be "euthanized":

> This state of affairs would… mean the euthanasia of the rentier, and, consequently, the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital…. I see, therefore, the rentier aspect of capitalism as a transitional phase which will disappear when it has done its work…

The inequality problem would be solved as a byproduct of solving the unemployment problem.

8.5.2. The *General Theory* & Full Employment

What policies would be necessary to actually achieve full employment? Milton Friedman and other monetarist economists long argued that central banks by themselves could do the job. All that was needed was for the growth of the money stock to be stable, because—they argued—all of Keynes's aggregate demand apparatus was too complicated and unnecessary. Aggregate demand was, instead, roughly proportional to the money stock. Keep the central bank from disturbing the smooth growth of the money stock, and have the central bank counter any disturbances to money stock growth springing from the banking system, and aggregate demand would be stable. Friedman and company thus rejected the arguments of the "Chapter 12er" Keynesians whole-hog, while buying the arguments of the "Book Ier" Keynesians. They thus arrived at Keynesianism-light: assign the central bank the full-employment stabilization-policy role, and have the government otherwise step back from managing the macroeconomy.

Keynes would have been sympathetic had he thought that it would work. But he didn't:

> It seems unlikely that the influence of banking policy on the rate of interest will be sufficient by itself to determine an optimum rate of investment…

Therefore, he concluded, maintaining full employment required a government willing to stand up in its spending when the private sector sat down, and perhaps more. Keynes:

> conceive[d], therefore, that a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full employment.

Thus the government would have to take on a large role in stabilization policy: simply handing the task off to a stable money growth-pursuing central bank would not cut it. The government would have to:

> enlarge… [its] functions… the necessity of central controls to bring about an adjustment between the propensity to consume and the inducement to invest…

would have to:

> exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways…

would have to:

> determine the aggregate amount of resources devoted to augmenting the instruments and the basic rate of reward to those who own them…

and all of this:

> would seem to a nineteenth- century publicist or to a contemporary American financier to be a terrific encroachment on individualism…

8.5.3. The *General Theory* & Economic Growth

Adopting the policies recommended by the *General Theory*, moreover, produces not just full employment but faster economic growth:

> If effective demand is deficient… the individual enterpriser who seeks to bring these resources into action is operating with the odds loaded against him. The game of hazard which he plays is furnished with many zeros…. Hitherto the increment of the world's wealth has fallen short of the aggregate of positive individual savings; and the difference has been made up by the losses of those whose courage and initiative have not been supplemented by exceptional skill or unusual good fortune. But if effective demand is adequate, average skill and average good fortune will be enough…

8.5.4. The *General Theory* & Human Freedom

And then Keynes pulls out the bomb. He is, and his theory are, he claims, *conservative.* It is certainly the case that:

> he enlargement of the functions of government, involved in the task of adjusting to one another the propensitv to consume and the inducement to invest, would seem to a nineteenth- century publicist or to a contemporary American financier to be a terrific encroachment on individualism..

But they are wrong, short-sighted, incapable of grasping the situation. In fact, the adoption of *General Theory*-recommended policies is:

> the only practicable means of avoiding the destruction of existing economic forms in their entirety…

Why? Because the current system as Keynes saw it was unbearable:

> It is certain that the world will not much longer tolerate the unemployment which, apart from brief intervals of excitement, is associated—and, in my

> opinion, inevitably associated—with present-day capitalistic individualism…

High unemployment was producing either communism, which “socialized” industries, or fascism, which “socialized” individuals. Free, liberal society was dying, country by country, and would continue to die unless the twin unemployment and inequality problems were solved.

But Keynes thought his theory could solve them. It required a radical enlargement of the role of government. But that role was an enlargement only, leaving enormous amount of space for private initiative, private enterprise, and individual liberty. Successfully manage aggregate demand, and:

> the foregoing theory is moderately conservative… [because] the State… will [then] have accomplished all that is necessary… there is no more reason to socialise [more of] economic life than there was before…

Indeed, with aggregate demand at a level corresponding to full employment:

> The traditional advantages of individualism will still hold good. Let us stop for a moment to remind ourselves what these advantages are… Efficiency—the advantages of decentralisation and of the play of self-interest…. Above all, individualism… is the best safeguard of personal liberty… greatly widens the field for the exercise of personal choice… the best safeguard of the variety of life… the loss of which is the greatest of all the losses of the homogeneous or totalitarian state…. Variety preserves the traditions which embody the most secure and successful choices of former generations; it colours the present with the diversification of its fancy; and, being the handmaid of experiment as well as of tradition and of fancy, it is the most powerful instrument to better the future…. I defend [my system]… both as the only practicable means of avoiding the destruction of existing economic forms in their entirety and as the condition of the successful functioning of individual initiative…

There is even the prospect of preserving personal and political liberty from the rising embrace of:

> the authoritarian state systems of to-day [which] seem to solve the problem of unemployment at the expense of efficiency and of freedom…. It may be possible by a right analysis of the problem to cure the disease [of unemployment] whilst preserving efficiency and freedom…

8.5.5. The *General Theory* & Economic Theory

Next, Keynes extends an olive branch to the profession of economists. He has a general theory. They had a special theory—a theory that worked only with the tacit assumption of full employment, only if Say's Law was a true theory. And that was not the case, so classical economics made accurate analyses only rarely, and by accident:

> Our criticism of the accepted classical theory of economics has consisted… in pointing out that its tacit assumptions are seldom or never satisfied…

But, Keynes says, his general theory tells how government policy needs to be adjusted in order to make Say's Law true in practice even though it was false in theory. And in that case, with aggregate demand at a level corresponding to full employment. With:

> an aggregate volume of output corresponding to full employment as nearly as is practicable, the classical theory comes into its own again from this point…. The result of filling in the gaps in the classical theory is not to dispose of the 'Manchester System', but to indicate the nature of the environment which the free play of economic forces requires…

In short: turn macroeconomics over to Keynes, and microeconomics can proceed as it was—but now with sound rather than faulty macrofoundations.

8.5.6. The *General Theory* & Political Action

Keynes concludes the *General Theory* with an explanation of why he turned his focus from policy, commentary, journalism, electioneering, and other forms of political-economic action to economic theory. It was because he had concluded that ultimately the world was ruled by *theory*—by works that taught people how to think, and how to see the world in a new way:

> The ideas of economists and political philosophers, both when they are right and when they are wrong, 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. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back…

In some ways this was a reverse of Marx's intellectual journal. Marx began thinking that the important thing was to understand and correctly interpret the world. But he then shifted to his Thesis XI: "hitherto philosophers have only interpreted the world in various ways; but the point is to change it". Keynes concluded that changing the world was impossible as long as economists continued to think in their old ways, and his task was therefore to give them a new framework in which to think. And Keynes had an answer to those who followed Marx, and believed that changing ideas was only a second-order task:

> The power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas. Not, indeed, immediately, but after a certain interval; for in the field of economic and political philosophy there are not many who are influenced by new theories after they are twenty- five or thirty years of age, so that the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest. But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil…

8.6. Which Was the "Real" Keynes?

Rather than paraphrase this, let me just give you some quotes from Paul Krugman's *Mr. Keynes and the Modern*:

> Chapter 12 is, of course, the wonderful, brilliant chapter on long-term expectations, with its acute observations on investor psychology, its analogies to beauty contests, and more. Its essential message is that investment decisions must be made in the face of radical uncertainty to which there is no rational answer, and that the conventions men use to pretend that they know what they are doing are subject to occasional drastic revisions, giving rise to economic instability. What Chapter 12ers insist is that this is the real message of Keynes, that all those who have invoked the great man's name on behalf of quasi-equilibrium models that push this insight into the background, from John Hicks to Paul Samuelson to Mike Woodford, have violated his true legacy.
>
> Part 1ers, by contrast, see Keynesian economics as being essentially about the refutation of Say's Law–the possibility of a general shortfall in demand. And they generally find it easiest to think about demand failures in terms of quasi-equilibrium models in which some things, including wages and the state of long-term expectations in Keynes's sense, are held fixed while others adjust toward a conditional equilibrium of sorts. They draw inspiration from Keynes's exposition of the principle of effective demand in Chapter 3, which is, indeed, stated as a quasi-equilibrium concept: "The value of D at the point of the aggregate demand function, where it is intersected by the aggregate supply function, will be called the effective demand"….
>
> I'm basically a Part 1er, with a lot of Chapters 13 and 14 in there too, of which more shortly. Chapter 12 is a wonderful read, and a very useful check on the common tendency of economists to assume that markets are sensible and rational. But what I'm always looking for in economics is intuition pumps…. And as it turns out, Keynes-as-equilibrium-theorist–whether or not that's the "real" Keynes–has a lot to teach us to this day. The struggle to liberate ourselves from Say's Law, to refute the "Treasury view" and all that, may have seemed like ancient history not long ago, but now that we're

> faced with an economic scene reminiscent of the 1930s and we're having to fight those intellectual battles all over again. And the distinction between loanable funds and liquidity preference theories of the rate of interest–or, rather, the ability to see how both can be true at once, and the implications of that insight–seem to have been utterly forgotten by a large fraction of economists and those commenting on economics…

And let me point out that Keynes himself would have disagreed—he thought that the important thing he had to contribute was the vision, rather than the analytical forms: **John Maynard Keynes** (1937): *The General Theory of Employment* <https://delong.typepad.com/files/keynes-1937.pdf>:

> I am more attached to the comparatively simple fundamental ideas which underlie my theory than to the particular forms in which I have embodied them.... I would... prefer... to reëxpress some of these ideas.... By "uncertain"... I... mean... the price of copper and the rate of interest twenty years hence, or the obsolescence of a new invention, or the position of private wealth-owners in the social system in 1970. About these matters there is no scientific basis on which to form any calculable probability whatever. We simply do not know.
>
> Nevertheless, the necessity for action and for decision compels us as practical men to do our best to overlook this awkward fact and to behave exactly as we should if we had behind us a good Benthamite calculation of a series of prospective advantages and disadvantages, each multiplied by its appropriate probability, waiting to be summed.
>
> How do we manage in such circumstances to behave[?]... We assume that the present is a... serviceable guide to the future.... We assume that the existing state of opinion as expressed in prices and the character of existing output is... correct.... We endeavor to conform with the behavior of the... average.... Now a practical theory of the future based on these three principles... based on so flimsy a foundation... is subject to sudden and violent changes.... Our desire to hold Money as a store of wealth is a barometer of the degree of our distrust of our own calculations and conventions concerning the future....

It is not surprising that the volume of investment, thus determined, should fluctuate widely from time to time. For it depends on two sets of judgments about the future, neither of which rests on an adequate or secure foundation-on the propensity to hoard and on opinions of the future yield of capital-assets. Nor is there any reason to suppose that the fluctuations in one of these factors will tend to offset the fluctuations in the other....

The amount of consumption-goods which it will pay entrepreneurs to produce depends on the amount of investment-goods which they are producing.... Given the psychology of the public, the level of output and employment as a whole depends on the amount of investment.... This that I offer is, therefore, a theory of why output and employment are so liable to fluctuation...

9. After the *General Theory*

9.1. Managing the Keynesian Revolution

Having written his revolutionary book, Keynes spent the last ten years of his life managing the ongoing Keynesian Revolution. Skidelsky argues that the key to his success was his ability to show that the General Theory was not a call for ever-increasing stimulus and inflation but instead an addition to economists' technocratic analytical toolkit. Aggregate demand management could be as useful in dealing with situations in which aggregate demand was too high (and thus inflation was rising) as with situations in which aggregate demand was too low.

Keynes's *How to Pay for the War* showed that the Keynesian aggregate demand toolkit could be useful for figuring out how to curb aggregate demand when it was too high as in how to boost it when it was too low. The point of *How to Pay for the War* was to reject inflation and to reject rationing as ways of assembling the resources to fight the war. Compulsory saving was to take its place, reducing aggregate demand in the present while preserving for the wartime generation a claim on the future production of the economy.

Keynes's views on war finance won broad intellectual (although not policy) acceptance remarkably quickly. The idea that positive steps had to be taken to diminish aggregate demand, and thus create the potential savings that would finance the war effort, was a remarkable shift in the way in which the British Treasury had traditionally thought. Keynes appears to have prevailed by raw force of argument, by sheer intellectual power. From this beginning, Keynes quickly became the informal but powerful leader of the British Treasury's wartime international economic policy.

John Maynard Keynes and U.S. Treasury official Harry Dexter White jointly designed the post-World War II international monetary system called Bretton Woods. When I look at the competing Keynes and White plans for post-WWII monetary reconstruction, I am struck not by their differences but by their extraordinary similarities. The White plan called for a World Bank to finance investment and reconstruction. It called for an IMF to repair the flaws in the interwar gold standard. The IMF was to make explicit and to enforce the rules of international economic behavior expected of countries. I was to manage exchange rate changes, to assist in resolving balance of payments problems, to encourage tariff reduction and free trade, and to control destabilizing movements of "hot money" (like we saw in Mexico in 1995 and in East Asia in 1997). The Keynes plan called for the same two institutions with the same two roles.

Now there were were important differences. Keynes envisioned a much better-funded institution than White did. Keynes's institution would have been capable of taking action on a larger scale. (The IMF we have now, however, is smaller than either envisioned.) Keynes saw a balance of payments imbalance as a problem for both surplus and deficit countries, both of which needed to be encouraged to change their policies. White saw a balance of payments deficit as the problem of the country running the deficit alone. When Keynes disagreed with White, he usually lost the point because of the greater power of the United States. And in almost every case it seems to me that Keynes was probably right: it was a bad thing that he lost the points at issue.

But compared to their common view of the institutions to be built and of the goals to be accomplished, the—important—differences between Keynes and White are orders of magnitude less important than the broad areas on which they agreed. Harry Dexter White—a complex man, probable Russian agent of influence, committed New Dealer, ruthless bureaucratic infighter, accomplished technocrat, and co-architect of the post-World War II international monetary system that played a key role in giving the world economy its fastest generation of growth ever—was somebody Keynes found he could work with:

> With Harry White, as you may suppose, we have been spending a vast amount of time... over-bearing, a bad colleague, always trying to bounce you, aesthetically oppressive... not the faintest conception of how to behave.... At the same time, I have a very great respect and even liking for him. A very able and devoted public servant, carrying an immense burden of responsibility and initiative, of high integrity and of clear-sighted idealistic international purpose, genuinely intending to do his best for the world. Moreover, his over-powering will combined with the fact that he has constructive ideas mean that he does get things done, which few here do. They way to reach him is to respect his purpose, arouse his intellectual interest (it is a great softener to intercourse that it is easy to arouse his genuine interest in the merits of any issue), and to tell him very frankly and firmly without finesse when he has gone off the rails...

Keynes died of heart disease on April 21, 1946, at the age of 63.

9.2. The Decline of Keynesianism [UNWRITTEN]

On January 27, 2010, United States President Barack Obama, from the Democratic—that is, the left-of-center—Party, gave his annual State of the Union Address. In it, he said:

> We took office amid a crisis. And our efforts to prevent a second depression have added another $1 trillion to our national debt. That, too, is a fact. I'm absolutely convinced that was the right thing to do. But families across the country are tightening their belts and making tough decisions. The federal government should do the same. (Applause.) So… starting in 2011, we are prepared to freeze government spending for three years. (Applause.)…
> Like any cash-strapped family, we will work within a budget to invest in what we need and sacrifice what we don't. And if I have to enforce this discipline by veto, I will. (Applause.)…

When Obama spoke, the U.S. unemployment rate was 9.8%. It had risen from 4.6% at the start of 2007 and 5.0% at the start of 2008 to 7.8% at the start of 2009 and had just peaked at 10.0% in October 2009. Unemployment was not to drop back below its start-of-2009 value for three years, until February 2013. Unemployment was not to drop back below its start-of-2008 value for six years, until January 2016.

The origins of this crisis lay in the housing boom and bubble of the mid-2000s…

Robert Skidelsky sees Milton Friedman as an anti-Keynes who believed that "the built-in stabilisers were present in market exchanges, so to speak, and did not have to be imported from outside". But if Friedman has sounded one single theme throughout his career, it is that economic stability can only be maintained if money growth is carefully managed--and that an unmanaged system like a gold standard will produce large fluctuations not just in the monetary base but the monetary multiplier as well. Keynes saw the government's key task as the stabilization of investment, Friedman saw it as the stabilization of the money stock. They are each much, much closer to the other than to the Hayeks or the Schumpeters or the Haberlers or the Pigous who dominated macroeconomics before the Keynesian Revolution…

George Akerlof and Robert Shiller (2009): *Animal Spirits* <https://delong.typepad.com/files/animal-spirits.pdf>

George A. Akerlof (2019): *What They Were Thinking Then: The Consequences for Macroeconomics during the Past 60 Years* <https://delong.typepad.com/files/akerlof-thinking.pdf>

Paul Krugman (2011): *Mr. Keynes and the Moderns* <https://delong.typepad.com/files/keynes-moderns.pdf>

Paul Krugman:

> **Old fallacies in new battles**: When you read dismissals of Keynes by economists who don't get what he was all about–which means many of our colleagues you fairly often hear his contribution minimised as amounting to no more than the notion that wages are sticky, so that fluctuations in nominal demand affect real output. Here's Robert Barro (2009):
>
> "John Maynard Keynes thought that the problem lay with wages and prices that were stuck at excessive levels. But this problem could be readily fixed by expansionary monetary policy, enough of which will mean that wages and prices do not have to fall…"
>
> If that's all that it was about, the General Theory would have been no big deal. But of course, it wasn't just about that. Keynes's critique of the classical economists was that they had failed to grasp how everything changes when you allow for the fact that output may be demand-constrained. They mistook accounting identities for causal relationships, believing in particular that because spending must equal income, supply creates its own demand and desired savings are automatically invested. And they had a theory of interest that thought solely in terms of the supply and demand for funds, failing to realise that savings in particular depend on the

level of income, and that once you take this into account you need something else liquidity preference–to complete the story.

I know that there's dispute about whether Keynes was fair in characterizing the classical economists in this way. But I'm inclined to believe that he was right. Why? Because you can see modern economists and economic commentators who don't know their Keynes falling into the very same fallacies. There's no way for me to make this point without citing specific examples, which means naming names. So, on the first point, here's Chicago's John Cochrane (2009):

"First, if money is not going to be printed, it has to come from somewhere. If the government borrows a dollar from you, that is a dollar that you do not spend, or that you do not lend to a company to spend on new investment. Every dollar of increased government spending must correspond to one less dollar of private spending. Jobs created by stimulus spending are offset by jobs lost from the decline in private spending. We can build roads instead of factories, but fiscal stimulus can't help us to build more of both. This is just accounting, and does not need a complex argument about 'crowding out'…"

That's precisely the position Keynes attributed to classical economists "the notion that if people do not spend their money in one way they will spend it in another." And as Keynes said, this misguided notion derives its plausibility from its superficial resemblance to the accounting identity which says that total spending must equal total income….

Keynes's discussion of interest rate determination in Chapter 13 and 14 of the General Theory is much more profound than, I think, most readers realise…. The proof of its profundity lies in the way so many people including highly reputable economists–keep falling into the fallacies Keynes laid out, both in discussions of fiscal policy and in discussions of international capital flows. The natural inclination of practical men… is to think of the interest rate as being determined by the supply and demand for loanable funds…. In those terms, it's only natural to suppose that any increase in the demand for or fall in the supply of loanable funds must drive up interest rates; and it's easy to imagine that this, in turn, would hurt prospects for economic recovery. Again, I need to name names to assure you that I'm not inventing straw men. So here's Niall Ferguson (in Soros et al 2009):

"Now we're in the therapy phase. And what therapy are we using? Well, it's very interesting because we're using two quite contradictory courses of therapy. One is the prescription of Dr Friedman Friedman, that is which is being administered by the Federal Reserve: massive injections of liquidity to avert the kind of banking crisis that caused the Great Depression of the early 1930s. I'm fine with that. That's the right thing to do. But there is another course of therapy that is simultaneously being administered, which is the therapy prescribed by Dr Keynes–John Maynard Keynes—and that therapy involves the running of massive fiscal deficits in excess of 12% of gross domestic product this year, and the issuance therefore of vast quantities of freshly minted bonds.

"There is a clear contradiction between these two policies, and we're trying to have it both ways. You can't be a monetarist and a Keynesian simultaneously – at least I can't see how you can, because if the aim of the monetarist policy is to keep interest rates down, to keep liquidity high, the effect of the Keynesian policy must be to drive interest rates up.

"After all, $1.75 trillion is an awful lot of freshly minted treasuries to land on the bond market at a time of recession, and I still don't quite know who is going to buy them. It's certainly not going to be the Chinese. That worked fine in the good times, but what I call 'Chimerica', the marriage between China and America, is coming to an end. Maybe it's going to end in a messy divorce."

What's wrong with this line of reasoning? It's exactly the logical hole Keynes pointed out, namely that the schedules showing the supply and demand for funds can only be drawn on the assumption of a given level of income.… As Hicks told us and as Keynes himself says in Chapter 14–what the supply and demand for funds really give us is a schedule telling us what the level of income will be for a given rate of interest.… It's possible that the interest rate required to achieve full employment is negative, in which case monetary policy is up against the zero lower bound, that is, we're in a liquidity trap. That's where America and Britain were in the 1930s – and we're back there again.… A zero-lower-bound economy is, fundamentally, an economy suffering from an excess of desired saving over desired investment. Which brings me back to the argument that government borrowing under current conditions will drive up interest rates and impede recovery. What anyone who understood Keynes should realise is that as long as output is depressed, there is no reason increased government borrowing need drive rates up; it's just making use of some of those excess potential savings–and it therefore helps the economy recover….

I'm not quite done here. If much of our public debate over fiscal policy has involved reinventing the same fallacies Keynes refuted in 1936, the same can be said of debates over international financial policy. Consider the claim, made by almost everyone, that given its large budget deficits the US desperately needs continuing inflows of capital from China and other emerging markets. Even very good economists fall into this trap. Just last week Ken Rogoff declared that "loans from emerging economies are keeping the debt-challenged US economy on life support." Um, no: inflows of capital from other nations simply add to the already excessive supply of U.S. savings relative to investment demand. These inflows of capital have as their counterpart a trade deficit that makes America worse off, not better off; if the Chinese, in a huff, stopped buying Treasuries they would be doing us a favour. And the fact that top officials and highly regarded economists don't get this, 75 years after the *General Theory*, represents a sad case of intellectual regression…

Auxilliary Files

Cement Your Knowledge: <https://www.icloud.com/pages/0yyHboa030OEohMkflwYE1u5w>
Final Exam Questions with Answers: <https://www.icloud.com/pages/0bGRgIUKhHGZG-KffZX_fAmNA>

Final Lecture

Life in Gathererhunteria and then in Agraria:
Population growth slow, averaging 3% per century (Bubonic Plague, etc.)
Average livings standards $2.50/day (more before agriculture)
Ideas stock at 53 in 1500—3x what it had been in 1000 BC, 9x what it had been in 6000 BC.

Longest-Run Global Economic Growth (2019)

Date	ideas Level H	Total Real World Income Y (billions)	Average Real Income per Capita y (per year)	Total Human Population L (millions)		Rate of Population and Labor Force Growth n	Rate of Efficiency-of-Labor Growth g	Rate of Ideas-Stock Growth h
-68000	1.0	$0	$1,200	0.1				
-8000	5.0	$3	$1,200	2.5		0.005%	0.000%	0.003%
-6000	6.3	$6	$900	7		0.051%	-0.014%	0.011%
-3000	9.2	$14	$900	15		0.025%	0.000%	0.013%
-1000	16.8	$45	$900	50		0.060%	0.000%	0.030%
0	30.9	$153	$900	170		0.122%	0.000%	0.061%
800	41.1	$270	$900	300		0.071%	0.000%	0.035%
1500	53.0	$450	$900	500		0.073%	0.000%	0.036%
1770	79.4	$825	$1,100	750		0.150%	0.074%	0.149%
1870	123.5	$1,690	$1,300	1300		0.550%	0.167%	0.442%
2020	2720.5	$90,000	$11,842	7600		1.177%	1.473%	2.061%

"Ancient" Ain't "Primitive" or "Unsophisticated", Is It? Could we teach:
Michelangelo di Lodovico Buonarroti Simon much about painting ceilings?
Praxiteles son of Kephisodotos much about sculpture?
Mnesarete (Phryne) daughter of Epikles of Thespiae much about presentation-of-self-as-celebrity?
Themistokles son of Neokles or Augustus Caesar much about politics?
Homer or Li Bai much about writing poetry?
Gaius Julius Caesar or Leonidas the Agiad much about how to die in battle?
Sophokles son of Sophilos much about drama?

Johann Sebastian Bach much about music?

Commercial and Industrial Revolutions:
4x and then 3x accelerations in rates of ideas creation
Rises in living standards—bigger rises in the world's industrial core
"All that is solid melts into air" or "Established orders and practices are steamed away"

The Big Enchilada: Modern Economic Growth
A further 4.5x acceleration in economic growth
A real population explosion
The end of the necessity of dire poverty—and of the necessity of gross inequality
What comes next? Linear extrapolations become absurd…

Then: The Tyranny of Distance
The Spanish Road
Six weeks from Milan to Brussels
Not in winter…

Now: Powers of, Well, Gods
Tomorrow Night I Am Flying to Berlin:
At the cost of two weeks' wages for a minimum-wage worker…
In 11 hours…
Adam Smith would have been dumbfounded…
Karl Marx would have been gratified
But would have said: wait!
you still have 700M people living on less than $2/day?
And have not socialism?!?!
John Maynard Keynes would not have been surprised—but the 2008 financial crises & seq. would have surprised him

Smith, Marx, Keynes: Their Weak Points

They wrote long ago; and they have their own biases:
What did they miss?
Smith trusts people to be peaceful…
Bunch of violence…
Smith assumes growth…
Smith and Keynes believe that capital and labor are always complementary…
Marx assumes that capital and labor are always substitutes…
Marx's love of the LTV
Marx did not say LTV approximately…
LTV is the reality, and market prices are mystifying veil over it…
Keynes: governments work…
Governments are smart…
The technocratic authorities—the economists—had the wrong models of the economy, and they had the wrong models of the economy because they were subject to "the Ricardian vice"
Keynes needs to retain economists…

Using Smith, Marx, Keynes to Think Better Yourself
How can we make use of these thinkers?:
Marx as knowing that capital is not always the workers' friend
Marx as knowing that inequality has a powerful political dimension: "the executive of the modern state is but a central committee for managing affairs in the interest of the bourgeoisie…"
Smith's vision of the division of labor, and of the role of capital in promoting it…
The market economy can be a truly wonderful thing…
It does a lot that central planning systems have a very hard time doing…
Keynes: depressions are not functional things… victory for the "Mammon of Unrighteousness" if a boom were not followed by a necessary depression…
Economic systems can go wrong for trivial reasons…

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Notes

Should I be adding Polanyi on as a fourth thinker? And then there should be a fifth for modern economic thought…

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