

Douglas Dowd

CAPITALISM AND ITS ECONOMICS

A CRITICAL HISTORY



Adam Smith

Thomas Malthus

Jeremy Bentham

John Stuart Mill

Karl Marx

Thorstein Veblen

Rosa Luxemburg

J. M. Keynes

Paul Samuelson

Milton Friedman

Eric Hobsbawm

'Addresses some of the most crucial questions of the current era. An impressive achievement.' **Noam Chomsky**



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AND ITS ECONOMICS:
A CRITICAL HISTORY

Douglas Dowd

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With deep gratitude and affection,
this book is dedicated to
Robert A. Brady (1901–63), M.M. Knight (1887–1981),
and Leo Rogin (1893–1947):
wonderful teachers, whose passion for understanding
and contempt for ideology
have served as a continuing inspiration

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Preface

As the twentieth century ended, two sets of economic facts stood in stark and disturbing contrast. First, for the first time in history, existing resources and technology taken together had made it possible for all 6 billion of the earth's inhabitants – now or within a generation – to be at least adequately fed, housed, clothed, educated, and their health cared for. And second, instead, well over half of that population was malnourished (with numberless millions starving), ill-housed, ill-clothed, ill-educated, in precarious health, and stricken by infant mortality rates and average life-spans belonging to the era of the early industrial revolution – when there were no more than 2 billion people.

The contrasts between the possible and the actual illuminate the disgraceful realities of that century. Yet, as this is written, capitalism – “the market system” – and its economic theory stride arm in arm on parade, celebrating their joint triumph, aloof and oblivious to these ugly facts.

But many who are neither capitalists nor economists know or sense much or all of those realities, and feel something other than triumph. They are alarmed at what exists and fearful of what edges over the horizon, and baffled, stupefied, or angered by what passes for economic wisdom. Using only good sense, these uneasy or indignant people see contemporary capitalism as producing a set of ongoing and imminent disasters for most people and much of nature: and they could rightly see economists serving not as society's economic doctors but as cheerleaders for business and finance.

This book, a critical analysis of the dynamically interdependent histories of capitalism and economic theory, contends that the “many” are right, and sets out to show why. To do so, it is necessary to examine the dynamic *interaction* of two processes – the historical realities of capitalism and the evolution of the economic theory that supports it. Both have been thoroughly studied over many years (if with diverse aims), and many of those inquiries will be referred to as we proceed.

In most histories emphasizing one or another or both processes, attention has not always been paid to our concern: their interaction.

Even when the latter has received considerable attention, a serious gap remains; namely, the relevance of understanding that interaction for our own time. This work, as often with histories, has been prompted by present issues. Among the most pressing of the latter is that economists now celebrate capitalism in ways that make it reasonable to classify them as ideologues – and to put them in their place.

The book's discussions of both socioeconomic and analytical histories will necessarily be summary and, to meet present purposes, selective, both for capitalist history and its economic theories: summary, to keep its length within reason; selective in terms of which nations and which economists are discussed. The book's purposes neither require nor allow an encyclopedic treatise; its failure or success will be measured in the degree to which it meets the need of "the many" to shake off the hypnotic effects of contemporary ideology and economic theory.

Much of what industrial capitalism has meant can, of course, be seen as achievements. They will be duly noted, as will the valuable analytical work of the relatively few exemplary economists over the whole period of this study. But our examination, when placed against the social values and scientific standards of our formal culture, will also reveal considerably more in capitalism's past and present that must be seen as tragedy, verging all too often on criminality.

Significantly, it will be found that those few mainstream economists (as distinct from radicals and reformers) who *have* made serviceable studies of capitalist processes and relationships have rarely if ever had their contributions integrated into the corpus of thought known as economic theory more than briefly. Least of all has such analysis been incorporated in the economic theory that today guides and rationalizes economic policies.

In less gentle words, the relationships between capitalism and economics – unsurprisingly, as will be seen – have rarely been at "scientific" arm's length; they have always been incestuous to some degree, and most shamelessly so as we approach the present. In consequence, the shared flaws of economics and capitalism have been aggravated and now become downright lethal – a term here used advisedly. This work is meant to support that strong language. It will be noted that Part I covers a time span more than twice that of Part II. The reasons for that difference are discussed in the Prologue. The latter provides a bare summation of the period within which both capitalism and economics first took hold. After an analysis of the core elements of capitalist development, there follows

a synoptic analysis of the nature of economic thought and how and why it has evolved over the capitalist era.

The three chapters of Part I treat of the distinctive periods bringing us up through World War II, and do so by an examination of the leading economies of each period – Britain in Chapter 1, plus the United States, Germany, and Japan in Chapter 2, and their and others' mutual breakdown in Chapter 3. It will also be noted that Chapters 2 and 3 are more than twice the length of most others. That is because, in addition to a continuing examination of the functioning of the “analytical quartet” that ties this book together – capitalism, industrialism, nationalism, and imperialism – there is an examination of the “historical quartet” that led the way. That is, the “quartet” that were becoming and still are the four most powerful industrial capitalist nations: Britain, the United States, Germany, and Japan. Those chapters might seem interminably long to the reader; to the writer it was a constant problem to keep them from becoming even longer, if superficiality were to be avoided.

Part II critically examines the past half-century, and suggests alternatives both to its socioeconomic realities and current trends and to the economic theory guiding them.

What might seem a lopsided emphasis on recent decades is by no means accidental, for they have “made” our present, and are the years that most require our understanding. The emergence in recent years of impending and frightening socioeconomic and ecological crises – with every reason to believe that what underlies them is accelerating – mandates that closer look.

The intended audience for this work are the concerned members of the reading public, academic and otherwise, who suspect or know in their *bones* that something is terribly wrong with our socioeconomy, but are unable to counter the abstruse arguments of mainstream professionals and their political counterparts.

With that public in mind, this book's intention is to serve as a useful step toward unlearning the dangerous arguments now guiding economic policy, while also *learning* how capitalism, despite and because of its innumerable changes over the years, serves more as a wrecking crew than as a builder. It will conclude with a very brief set of possible and desirable alternatives.

Neither this nor any other book, nor reading alone, can suffice for such large purposes. But reading is essential for understanding. Scandalously, such understanding of the economy is unlikely to be gained in a typical economics classroom or text: quite the opposite. Beginning with the undergraduate major, and made worse at the graduate level, the economics student is required to master

theoretical technique, not to understand the economy. The consequence is what has been called a "trained incapacity" to comprehend economic realities.

Because I have been a professor of economics and economic history for about 50 years, it is probable that, despite my good intentions, I have not successfully overcome the "professorial" tone. It will be seen that there are numerous notes. Where they are not simply for documentation they are meant to elaborate on and support the generalizations in the text. There are many references for further reading in those notes, also placed there with the hope that they will be pursued. For the reader who is deterred by notes, I add that the text can be read with no reference whatsoever to them; they may be ignored or, for those interested, be read at a later time.

Many of the observations, analyses, and data to follow were developed in various of my previous publications, and are used here again in a somewhat or greatly different context. It seemed it would be foolish to work out different ways of saying things I had said before, unless I had changed my mind. The source in which the original occurred is given.

Finally, I wish to offer my deep thanks to those who have assisted in the processes of getting this book written and published. In the midst of its first draft, I was much helped by the solicited criticisms of James Cypher, Michael Keaton, and Fred Doe (the latter currently studying economics at Berkeley). As the work went on, I was gratified by the various forms of assistance provided by Edward S. Herman, Howard Zinn, and, again, Michael Keaton. When Pluto Press accepted the manuscript, the subsequent and numerous suggestions of Roger van Zwanenberg of Pluto were vital in leading to a substantial revision. And I can never sufficiently express my gratitude for the constant encouragement and help of my wife, Anna.

Bologna,
November, 1999

Prologue

WHAT HAS CAPITALISM DONE FOR US? TO US?

And how does it get away with it? "Get away with *what?*" a large percentage of well-off (and even some not well-off) would respond, in the United States and elsewhere. But for those whose hearts and minds have yet to be fully won over by capitalism, whose brains and eyes and feelings remain relatively intact; for those who have not lost all sense of the connectedness of each with all, of the need for and rewards of human solidarity – for us, whether comfortable or not, the world too often can seem like a nightmare without end.

It is a world in which, except for perhaps 15 per cent of its 6 billion people, each day involves a desperate struggle, more for survival than comfort. Even the privileged percentage could well shrink soon. Its members too could be engulfed by the economic, ecological, and social calamities capitalism necessarily entails (or produces as "side-effects").

Before the 1930s, capitalism was touted without irony as a society where "It's each for himself, and God for all" – until the Great Depression made that a bad joke. That slogan has yet to revive, but another and older phrase threatens to fit the social cruelties now spreading and deepening: a war of all against all. Notwithstanding, the paeans to capitalism have never been so loud as now, nor so unabashed. Never has capitalism been praised so fulsomely for its presumed virtues and its vices passed over so lightly, or – more to the point – trumpeted as virtues, thus heaping insult on mountains of injury.

The injuries have been, are, and will be of all sorts, always deeper, always more widespread. They have endured capitalism's more than two centuries, covering many of what economists call "long runs" – in which a better world for all perpetually awaits. Less bedazzled observers worry that the continuation of capitalism through the twenty-first century is more likely to finish us all off.

Capitalism's record has two sides to it. *Of course* it has meant improvements in most areas of human existence for some, whether measured in comfort, education, health, productivity, or income levels. But there is the other side, whose components are casually ignored or brushed aside by mainstream opinion-makers. Two centuries ago there were fewer than 1 billion people in the world! Now more than 3 billion people live in a state of misery and deprivation. In the prehistoric, ancient,

medieval, and early modern worlds the means for universal well-being did not exist; now they do. Nor should it be forgotten that primitive peoples – whatever the dangers and hardships of their existence – very probably were better fed, clothed, and housed and more secure in their lives than the several billions who have been or are now being uprooted from their traditional ways of life as a result of capitalism's conquests.

In that primitive past there were innumerable tribes. What exists now instead are “two tribes” (to adopt Disraeli's words): one relatively small and *very* rich, one enormously large and *very* poor. Both despite and because of what is generally seen as “progress,” the gap between them has not narrowed, but has widened, and does so ever more rapidly.²

The accelerating damages through capitalism's existence have destroyed or ruined innumerable millions of people and whole cultures and societies, and have pulverized the mortar of social traditions that protect human beings from the worst within and between us. Doubtless some of what was lost is better so; but also lost was much of great value when set against the culture of commercialism that now rules.

As if that were not bad enough, capitalism's pressures for unremitting economic growth hold as permanent hostage the flora and fauna, the air, the soil, and the water of the planet – never to be freed, fated to succumb to capital's voraciousness and the “free market's” heedlessness.

The millennia preceding industrial capitalism too often made for Hobbesian lives – “nasty, brutish, and short.” Nonetheless, our, and other, species survived and flourished over those millennia. Among the achievements of the modern world are many which none would wish to see lost; but taken as a whole, the results of those “achievements” threaten the survival of most species, including our own.

How is it, then, that with such a dubious record – and such dire prospects – capitalism is less resisted and more popular than ever? One answer lies in the sources and uses of capitalist power. That power is manifested in the economic, political, and cultural dimensions of our existence, and it strengthens in line with technological advance. For capitalism's ongoing purposes and my present concern, those advances that help to shape thought and feeling, those in communications are most relevant: they have facilitated the processes by which our “cultural space” becomes totally dominated by commercialism, serving most especially the super-corporations and their “boughten” political cohorts.

Thus, in the three “dimensions” just noted, and in addition to the power that has brute force or sheer money behind it (as between rich and poor nations, or employers and employees, for example), there is the power of supporting ideas. The latter function in all the components of the media and, among other areas and most pertinently to what follows, not least in the economics profession.

In the realm of ideas and ideology, the focus of this book will be considerably more on the role of economists than of historians, sociologists, and political scientists. That is not meant to slight the latter's substantial contributions – for better and for worse – to the understanding (and misunderstanding) of contemporary capitalism.

Underlying the analysis here is the view that history is the *sine qua non* for understanding economic life; that the structures and relationships of society (most especially those of power, usually seen as a political concept) determine the quantitative and qualitative aspects of our existence; that in a *capitalist* society economic structures and relationships are critical; that moving within social processes – economic, cultural, political, scientific – are *ideas* produced by and producing changes in *all* those structures and relationships; and that, finally, among such sets of ideas in a capitalist society, economic arguments naturally tend to carry the most weight.

*

The three chapters that comprise Part I⁶ trace out the intricate relationship between capitalist development and concurrent economic thought from the mid-eighteenth century to the end of World War II. What became the economics profession almost always served to support capitalism, while obscuring its harmful consequences – with, only now and then, voices of reform or opposition.

Part II, which examines the decades from 1945 to the present, continues the examination of the customary symbiotic relationships between capitalism and economics, and focuses on the developments that have taken us to the present period of intense globalization. The book concludes with a critique of contemporary capitalism and its supportive theory, and briefly suggests alternatives.

The remainder of this Prologue provides a bird's-eye view of that complex set of developments. Its objective is to give the reader an early and overall sense of the shape and directions and "feel" of the book.

Beginning with Adam Smith (1723–90) and the British industrial revolution we first turn to the socioeconomic processes that made capitalism possible and note the imperatives capitalism must meet in order to survive, let alone to flourish, and let the devil take the hindmost – which the devil invariably does.

THE DYNAMICS OF CAPITALIST DEVELOPMENT

Capitalism and economics, of course, both had an embryonic existence before 1750, but neither possessed the dynamism or the strength underway by 1800 – a swiftness of change, as will be seen, intrinsic to the capitalist process. Hindsight informs us that by 1800 the rise of industrial capitalism had become irreversible in Britain. Also by then the socio-

economic foundations of what became “classical political economy” had been put in place by the three earliest of its main thinkers: Adam Smith, Thomas Robert Malthus (1766–1834), and Jeremy Bentham (1748–1832).

Then, in 1817, capitalism’s development brought forth the key theoretical treatise of David Ricardo (1772–1823); in 1848, John Stuart Mill (1806–1873) synthesized the main elements of classical political economy, in what was the last major work of that body of thought. In that same year, Karl Marx’s (1818–83) and Friedrich Engels’ (1820–95) portentous *Communist Manifesto* exploded into existence.

Taken together, the efforts of Smith, Malthus, and Bentham, followed by those of Ricardo, Mill, and Marx, laid the foundations for the arguments which to this day support or oppose capitalism’s maintenance, spread, reform, or dissolution. The main elements of all these will be analyzed in the following chapter. Here we examine the when, the whys, and the wherefores of this most dynamic of social systems.

Capitalism’s nature and nurture

Some scholars contend that capitalism first took hold in medieval Italy, or in seventeenth-century Holland, rather than in Britain. But if capitalism is taken as meaning *both* economic *and* social processes and relationships going well beyond production and trade for profit, eighteenth-century Britain commands our attention.

There and then capitalism had developed the momentum and depth essential to a sturdy birth and survival. It was unlikely to end except by forces external to it,⁸ or by revolution.

The momentum of the capitalist process was driven by efforts seeking to satisfy its three systemic imperatives: expansion, exploitation, and oligarchic rule. Capitalism could only meet *those* imperatives within a larger context of three overlapping developments that it strengthened and was in turn strengthened by: colonialism (which became imperialism, and has now become globalization); industrialization, and nationalism.

Taken together, the meeting of these imperatives, joined with a satisfactory development of the foregoing elements, provide the basis for capitalism’s viability. Yet that same set of processes and relationships inexorably produces an intermittent burst of crises—threats to its survival that have all too often become ugly realities.

We shall see that Adam Smith was the first conscious proponent for what was becoming a capitalist society. Marx, in becoming the first to posit capitalism’s “economic laws of motion,” also became its first profound critic. His arguments remain fundamental to successive critiques. The following historically precocious passages from his and Engels’ *Communist Manifesto* (1848) can serve as a vivid introduction to our

discussion of the ravenous appetites of the capitalist process, words that fit today's processes at least as much as those of his own time:

The bourgeoisie cannot exist without constantly revolutionizing 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 revolutionizing of production, uninterrupted disturbance of all social conditions, ever-lasting 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 whole surface of the globe. It must nestle everywhere, settle everywhere, establish connexions everywhere. (1967c, 38)¹⁰

But *why* must capitalism always expand and exploit, as it rules oligarchically? And, assuming there are good answers to those questions, why are neither the questions nor the answers part of "economics"? (Where, indeed, the term "capitalism" – as distinct from the bland images of "free enterprise" or "free markets" – seldom if ever raises its controversial head.) Before progressing, here is a brief set of responses to the "why" of capitalism's life processes.

***The heart of the matter: expansion and exploitation*¹**

Throughout its history, capitalist profitability has required, and capitalist rule has provided, ever-changing means and areas of exploitation (where "areas" signify both geographic and social "space," as will be seen). The central relationship making this possible is the ownership and control of productive property: a small group that owns and controls, and a great majority that does not, and whose resulting powerlessness requires them to work for wages simply to survive. Those social relations between these two classes are the basis vital for capitalist development.

Given those social relations, the strengths of each capitalist enterprise and nation, and of global capitalism, vary in accordance with the volume, scope, and rate of capital accumulation: that is, the expansion of the capitalist's capital. This refers to the driving force of capitalist development, the "ploughing back of profits" (or, as Marx saw it, of "surplus

value¹²), which converts those profits into additional capital. Capitalists as such are not driven by the desire for higher consumption – given that their consumption is normally at the social maximum – but by the passion for wealth. Marx put it succinctly in this famous passage:

he shares with the miser the passion for wealth as wealth. But that which in the miser is a mere idiosyncrasy, is, in the capitalist, the effect of the social mechanism of which he is but one of the wheels. Moreover, the development of capitalist production makes it constantly necessary to keep increasing the amount of the capital ... in a given industrial undertaking, and competition makes the immanent laws of capitalist production to be felt by each individual capitalist, as external coercive laws. It compels him to keep constantly extending his capital, in order to preserve it, but extend it he cannot, except by means of progressive accumulation. (1867a, 649)¹³

Capital accumulation for present purposes may be seen as the basis for *economic* growth or expansion. That has always been tightly interwoven with processes of extensive and intensive *geographic* expansion – most intensively in its contemporary expression as “globalization.”

It is useful to think of economic and geographic expansion as being, respectively, *vertical* (the economy expanding “upward”) and *horizontal* (national capitalism expanding its power outward over weaker societies), the former requiring and always pressing for the latter.

The two forms of expansion taken together may be seen as the essence of the capitalist *process*, its “heartbeat.” In turn, they depend on capital’s ability to exploit labor and the State’s cooperation in external expansion – capitalism’s “muscles.” And the “brain” of the capitalist process, the third member of the triad, is rule – direct and indirect – by capital.

But how can that be, especially when it is understood that political democracy normally follows in capitalism’s path? To answer that requires a pause for a brief discussion of the limitations of political democracy. Then we return to the processes of expansion.

Oligarchic rule!

Taking account of modern economic and social history helps to confront that seeming paradox. The “democracy” that capitalism brings in its path – that, indeed, it has required – is *political* democracy; that is, the formal right on the part of the citizenry to install and remove those who make up their governments, through the electoral process. But that process is predictably contaminated when it coexists with capitalism’s essential stratifications of income, wealth, and power – all three of which are characterized by substantial inequality, enabling the members of the

higher levels of income and wealth to maintain or increase the inequality of power and to initiate policies favoring them. Or, just as important, to effectively veto those that do not. Such has always been the case, throughout recorded history.

Oligarchic rule was the norm before capitalism, of course; but its continuity in the modern era within political democracies constitutes a puzzle: until one thinks about it. As Robert McChesney (in keeping with many others) points out:

Capitalism benefits from having a formally democratic system, but capitalism works best when elites make most fundamental decisions and the bulk of the population is depoliticized. (1999, 3)

Throughout the capitalist era, whether in the United States or elsewhere, power has (so to speak) been "bought." Not for nothing, for example, was the U.S. Senate called "the rich man's club" in the years termed "the gilded age," or "the great barbecue" when there was no direct election of senators. But when that changed, means were found to bring about the same result, with respect to the Senate as with other areas of government – in keeping with Woodrow Wilson's remark (made in 1912) that "When the government becomes important, it becomes important to control the government."

In one variation or another, at all levels of sociopolitical power and irrespective of nation, that has been so. This is not to overlook the instances (most especially after World War II) when, in the richest capitalist nations, socioeconomic policies were put in place favoring, also, the lower 80 per cent of the population. But, as will be discussed at length in Part II, those developments – the social democracies of Britain and Western Europe, and the "corporate liberalism" of the United States – were also economically beneficial to those at the top. When they ceased to seem so, in the 1970s, the "corporate counterattack" took hold. That about-face was much facilitated, indeed made possible, by the role and control of the media, which has now become so common (and continues to grow). That role, the indirect use of power, has now been joined to raw money – where, more often than not, it is one faction at the top vying with another faction, also at the top. But quite apart from (although it never is apart from) the purchasing of politics, politicians, and power, the ugly truth behind the capitalist fig leaf of political democracy is that the overwhelming majority of the population is without means of support, except insofar as they earn their incomes on the terms of those who own and control the means of production. If there is any difference between the past and the present, it resides in the existence of populations in the politically democratic countries who have been so mesmerized – or

trapped, or lost – in the jungles of consumerism that force is no longer necessary to gain their acquiescence in an exploitative and otherwise harmful social system.

That takes us back to *expansion*. The true nature and consequences of capitalism's need for inequality – of income, wealth, status, and power – and the exploitation enabling it, have been effectively obscured in the leading industrial capitalist nations proportionate to the degree that the needs for expansion have been met. This has been most effectively so in the United States, and remains one of the several qualities of U.S. capitalist development making for the comparative absence of class consciousness and conflict in the United States as compared with Europe!⁵

What exploitation?

It is important to digress here to examine the matter of “exploitation,” a concept that does not *exist* in contemporary economics. We take a moment now to pursue a few central points, which will be elaborated in later chapters when appropriate.

Economics provides no plausible explanation for the most crucial question, “Where do profits come from?”⁶ Instead, all recipients of incomes – interest, profits, rents, and wages – are seen as receiving a return for their contribution to production: thus, for example, profits are normally discussed as “earnings.”

However, when we examine two fundamental works of classical political economy – those of Adam Smith and David Ricardo – we see that they took exploitation as normal and necessary, but the term itself was not used. What *was* used was a presumption that workers ought naturally to receive subsistence wages, unconnected to their production or productivity, wages sufficient only to keep them alive, reproducing, and working.

What Smith took for granted, Ricardo pursued (though not for our purposes). He saw wages and profits as having an inverse relationship – if one went up, the other had to go down – and showed that existing protective tariffs on imported grain (called “corn” in Britain), by raising the price of bread, therefore raised wages, and lowered profits. The advantage went to the landed gentry, at the expense of the incipient industry Ricardo championed. He called such agricultural gains “rents” or “unearned income.”

Marx took the logic of Ricardo's argument on rent and applied it just as rigorously against profits. In doing so, he had placed a land-mine in classical political economy. Avoiding that was a major reason for the subsequent replacement of classical by “neoclassical” economics. The latter's dreamlike abstractions allowed profits to be “earned.”

But surely, the exploitation Marx saw as essential to capitalist development has – even in the rich democracies – been much lowered,

even disappeared? Not quite. Contemporary data regarding exploitation and employment noted in Chapter 5 reveal that after the substantial *reduction* of worker exploitation of the 1950s and 1960s, there ensued a steady and pervasive *increase* in exploitation of workers in both the commodity and service sectors in the advanced industrial nations – led by the United States.

And in the “emerging economies”? The harrowing condition of workers of the early industrial revolution have been outstripped by those in the developing countries. Furthermore, the numbers of those harmed are a large multiple of the earlier period – with, moreover, no surcease to be found in any conceivable “long run.”

Capitalist development, and the nature and evolution of classical political economy and subsequent transformation to neoclassicism, will be examined in the first two chapters of Part I; the collapse of capitalism and that economics occupies Chapter 3. Part II studies the rebirth and mutations of capitalism and the concomitant mutations of economics up to the present.

Of all that, more later. Now we return to our previous focus on expansion to elaborate somewhat on the crucial question of “horizontal” expansion. The Prologue concludes with some observations on the whys and wherefores of economic theorizing, as distinct from the theories themselves.

“Trade and the flag”: Which follows which?

Capitalism and the nation-state had their formative years in the sixteenth and seventeenth centuries, with each feeding on and strengthening the other. It was a period of permanent warfare fought mostly on the high seas, over who would control which part(s) of the expanding “overseas empire.” Without military protection merchants could barely survive, let alone prosper from, an expedition to the areas fought over by many nations.

The overseas expansion that began with Portugal and Spain in the 1500s – both holdover feudal societies obsessed with “cross and flag” – continued with the very practical Dutch in the 1600s. That took the conflict into the eighteenth century, where it became a seemingly endless bloody struggle between the British and the French.

Holland, France, and Britain were bent on winning out in a fierce conflict requiring military strength and yielding economic gain: and it was believed that for the latter to rise, so also must the former; and vice versa: the essence of “mercantilism.” Those doctrines and practices were the target of Adam Smith in his *Wealth of Nations* (1776)!¹⁷

The economic side of the pre-capitalist period had many elements to it. First, economic strength was essential for military strength, which in its turn was essential for the nation’s survival *as* a nation (in the

seventeenth century there was international war in all but four years). Second, the era was one in which the economy's main dynamism came from foreign trade (with production and finance dependent). And third, the most gainful aspect of trade was in such overseas products as "spices" (of which there were several hundred, including both food and medicinal products), tobacco, cotton, and, increasingly important over the period, slaves; it was the epoch of "beggar thy neighbor!"⁸ Marx called the associated processes "primitive accumulation":

The discovery of gold and silver in America, the extirpation, enslavement and entombment in mines of the aboriginal population, the beginnings of the conquest and looting of the East Indies, the turning of Africa into a warren for the hunting of black-skins, signalled the rosy dawn of the era of capitalist production. These idyllic proceedings are the chief momenta of primitive accumulation. (1967a, 751)

Given worker exploitation, this leaves unanswered the question "Why are economic and geographic expansion necessary for capitalist profitability?" Once again, where do profits come from? When "capitalists" *manage* an enterprise (which, except for small businesses, they do not), they earn an income for that contribution to production. But profits are something in addition. They are a return to the *ownership* and control of capital, of the means of production – that is, of the means of life. In this they are the same as interest on borrowed money, or rent for the ownership of land. The following words from John Maynard Keynes (1883–1946) might well have been written by Ricardo!⁹

Interest to-day rewards no genuine sacrifice, any more than does the rent of land. The owner of capital can obtain interest because capital is scarce, just as the owner of land can obtain rent because land is scarce. But whilst there may be intrinsic reasons for the scarcity of land, there are no intrinsic reasons for the scarcity of capital. (1936, 376)

As we will see in subsequent chapters, Keynes went on to argue that the industrialization process brings about levels of productive capacity which – under existing conditions of the inequality of income and wealth, and therefore of limited purchasing power – reduce capital's scarcity. Hence, the justification for the reward to capital dwindles to vanishing point. Keynes, though a reluctant supporter of capitalism (as the lesser of all evils), became infamous to the financial class when he argued that the abundance of capital should lead to "the euthanasia of the rentier, and, consequently, the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital" (*ibid.*).

In the absence of governmental policies for what Keynes called social consumption (public housing, and so on), and social investment (highways, bridges, schools²), capital "scarcity" can be maintained or created, if at all, only by further private investment, increasing sales for the industries producing materials and equipment but *also* adding to already excess productive capacities; or by increasing exports.¹ Clearly, these latter will ultimately run into a wall. They did so in the 1930s, and led Keynes to develop his reformist perspective on capitalism.

There are, of course, other seeming means for continuous expansion: 1) that created by substantial technological change, and 2) expansion enabled by always rising consumer debt. Together, they explain much of the great expansions since World War II. But the wall exists for them also, as we shall see in the discussion in Part II. There an even more forbidding ecological wall looms and will also come into focus.

These have been very large generalizations. In our examination of the history of capitalism since 1750 it will be seen that differences and complexities have been numerous among capitalist nations and in any one nation over time. Through that jungle of complexities, the basic characteristics of capitalism remain decisive – even as this most volatile of social formations changes in many ways for many reasons, endlessly and heedlessly producing and requiring, wracked and nourished by, alterations in all quarters of social existence: everywhere.

In sum

Capitalist expansion processes may be seen as something like the progress of a tightrope walker, precariously poised along an always shifting path of balance and imbalance. This is the path of what used to be called "the trade (or business) cycle" – one process of expansion and contraction (or "recession") after another: until, that is, the 1920s and 1930s, when one *economy* after another crashed. The world was soon thereafter ravaged by the violence of the worst war ever.

That two-decade period was framed by two world wars, the first a product of all the competition, tension, and conflicts – economic, political, global – that give the modern world its dynamism; the second, a consequence of the inability of that chaos to be resolved other than by massive destruction. By 1945, only one major power stood standing, the United States: it could and had to create a new and quite different global economy, if capitalism was to be brought back to life. We shall see that *two* different global economies were created – both by the United States. The first extended through the 1950s into the 1970s, very much dominated by the effects of World War II and the ensuing Cold War, and the second the considerably more intensified and "financialized" global economy, whose hold began to tighten in the 1980s, and increasingly so

through the 1990s. In examining those two major developments, we will see that, however much they differed from prior developments and from each other, they shared two characteristics with their predecessors: 1) tendencies toward greatly rising production and productivity and rapid social change and an always greater interdependence within and between societies – for better and for worse, and 2) the creation of a supporting ideology, propagated not least (if not seen as such) by the economics profession.

We conclude this Prologue with a general – overall, abstract – discussion of the ways in which “economics” has dealt with, influenced, and has been influenced by – or stayed aloof from – the processes of capitalist-dominated history. In doing so, we enter the exotic realms of “methodology,” realms which for economics have more often than not been difficult to distinguish from those of ideology.

THE SOCIOLOGY OF ECONOMIC THEORY²²

Methodology may be seen as the systematic analysis of theory; more exactly, it explores the whys and wherefores, aims and means, and validity of a particular theory, or even a whole school of thought. Its defining characteristic is not so much a concern with the *content* of analysis as with the how and the why by which that content is selected, organized, and used to construct (in our case) economic theories and, by extension, the manner in which they lead to (or are occasioned by) associated policies. Something like the concern of an optometrist, who is not interested in what you look at but whether you see it clearly; and if not, why not.

Among the matters relevant to such inquiries are those that entail questions of abstraction, factuality, and focus: what is abstracted *from* and on what level (and why), what elements are focused *upon*, and how closely, leaving what are to become the theory’s “variables” (and why). Both the “whats” and the “whys” are important.

Earlier, it was insisted that economic understanding requires *at least*, but not only, history, the study of social connections over time. No economic relationships or processes can be adequately understood unless approached historically; nor can they be understood except in their dynamic connections with other aspects of social existence (political, technological, cultural): the very term “economy” is itself an abstraction invented so as to allow “economic analysis.” There are many questions to be answered before one can decide that a particular theorizing process is or is not valid, and some of those will be faced in ensuing chapters. Here let us examine those regarding “history” and the “economy.” In the very first course I took in economic history, and in its very first meeting, the professor raised these questions: “Supposing that historical understanding

is essential for social understanding, then which history? When, and where, and *why* should we study *that* history? Should one choose to study France in the eighteenth century? And if so, how do you decide between an inquiry into Voltaire's laundry tags, rather than, say, the processes leading up the French Revolution? Or should something else be chosen? Is there a theory of history that enables one to choose? How does one choose that and not some other theory of history?²³ To which may be added, and *who* does the choosing? And why? We will return to those questions more than once in later chapters.

"The economy"

Just as economics came into being with capitalism, so did the notion of "an economy." *Of course* there were "economic" activities before capitalism (Aristotle was only the most notable among those discussing them). They took place in social formations— ancient, medieval, early modern — in which those activities were always pursued *within* a set of primary institutions and social values rather than set off from or dominating the larger social process. As will be seen, Adam Smith was the first to propose that an "economic system" could be "left to itself," the origin of the term *laissez-faire* (now called "a free market economy"). The shocking quality of that notion for other than modern times was clearly portrayed in the following passage from R.H. Tawney's perennially illuminating masterpiece *Religion and the Rise of Capitalism*

to found a science of society upon the assumption that the appetite for economic gain is a constant and measurable force, to be accepted, like other natural forces, as an inevitable and self-evident *datum* would have appeared to the medieval thinker as hardly less irrational or less immoral than to make the premise of social philosophy the unrestrained operation of such necessary human attributes as pugnacity or the sexual instinct.⁴

Objectivity and neutrality

So then, what has usually engendered conventional economic theory? The view that seems to me most persuasive holds that "policy precedes theory." That is, the efforts and ideas involved in developing theory are driven and guided by sociopolitical problems and possibilities that the theorist envisions, senses, grapples with, is troubled or inspired by. These (or other attitudes or feelings) in turn stimulate the thinker to identify particular social processes as being crucial, and as requiring certain changes which, when made, will permit desirable conditions to persist, eliminate undesirable conditions, and/or make way for a better social order.

The preceding generalizations most obviously apply to the political “tracts” of the “mercantilist” seventeenth and eighteenth centuries. Those tracts were normally addressed to the State to begin, modify, or end a particular policy (regarding trade or industry). If less obviously, the generalizations also fit the more comprehensive and profound theorists who followed – as diverse as Adam Smith, Karl Marx, and J.M. Keynes – who sought, respectively, to foster, overthrow, and save capitalism.

Though this characterization of the process of theorizing seems almost crude, it nonetheless fits all important social thinkers. The crux of the matter has to do with the difference between objectivity and neutrality.⁵

Any work claiming to meet the standards of modern science has to satisfy at least the two standards that essentially define objectivity: those of fact and logic. But one can meet those standards with total rigor, while at the same time serving an ideology. It all depends not on whether one has adhered to evidence and logic, but which questions are asked and which are *not*. That in turn depends on the theorist’s experience, interests, biases, aims, values – all dominantly subjective. With all that, neutrality fades into the shadows.

Concerning social matters, nobody is “neutral.” Indeed, it is fair to say that one wouldn’t wish to know anyone who *is* – one, oblivious of the outcome of this, that, and the other aspect of the social process, others’ wealth or poverty, health, or illness, ignorance or education, security or insecurity, and so on. We all care in one way or another about all those matters and others, of course. It might be easy occasionally to suppress or repress such concerns; nonetheless, they exist. And, the more self-conscious thinkers are about such matters, the more unlikely they are to be “objective” in even the casual use of the term.

In sum, one’s position on social matters determines one’s interests. If one is a “social scientist,” the questions one asks of social materials – what they are, their particulars, and whether this is taken as central and that is set aside as “given” – emerge from those interests, consciously or not.

When this reasoning is applied to economic thought, the results may well be shocking, but they should not be surprising. Thus it is often alarming to note what mainstream economists do and do *not* examine, what questions they do and do *not* ask, what aspects of the economy (and important connections with the rest of the social process) they do and do *not* take into account. In this connection, it may be illuminating to contrast the approach of “the first economist,” Adam Smith, and the neoclassicists of the late nineteenth century who, after being upended by the depression of the 1930s, are once more dominant.

For one as critical of capitalism as I am, there are ample grounds for criticism of Adam Smith’s work, and some of those criticisms will emerge in the first chapter. Having said that, it may also be said that

Smith was not only “the first economist,” but he can be seen doing in his day what economists should be expected to do, but nowadays is rarely done.

What should economists be expected to do?

We may begin by answering that the interested public needs and expects to get good answers to the question “What do we need to know about the economy?” And to the closely related question “And what can and must we do to have the economy serve our human and social and ecological needs?”

Smith sought honestly and admirably to answer at least some of those questions in his *Wealth of Nations* so, however, did Karl Marx in *Capital* and other works. That being so, it becomes clear that these apparently simple questions are – and cannot help but be – “loaded.” For if Smith and Marx were answering similar questions, it is obvious that there had to be different references for “we” and “our.”

For Smith the reference was to the incipient industrial capitalist; for Marx it was the working class. Nor is it uninteresting to note that both Smith and Marx assumed that the exploitation of workers was essential to the functioning of capitalism, but Smith’s audience was largely those who were (or would be) doing the exploitation, Marx’s the exploited. Both answered the questions, well and honorably: that they did so in quite different ways points to the critical difference between “objectivity” and “neutrality.” Both were objective, stretching neither fact nor logic, neither was neutral: they spoke to contrasting social interests.

But neoclassical economics does not answer the questions noted above, from *any* standpoint. It starts with a set of assumptions and values (muted or taken for granted) and proceeds, using only logic, to assert (through assumptions) what is not so and to follow that with a set of analyses and prescriptions which, although they serve the interests of those holding power in the capitalist status quo, are put forth as equally valid for the society as a whole.

Neoclassical economists do not treat economics as a discipline seeking to inform the public “what it needs to know about the economy,” for their economics says *nothing* about the economy.⁶ Instead, its definition of economics is “the science of allocating scarce resources to unlimited wants.” But the reality is that resources are *not* scarce and human wants are *not* unlimited – except in the sense that resources are *made* to be scarce through some combination of frivolous and wasteful patterns of consumption and production, and that wants are *induced* through advertising to become unlimited.⁷

All that will be examined more fully as we proceed, as will the consequences of the policies recommended by the neoclassical economists, past and present.

As we now move ahead to Chapter 1 and its consideration of the first century of industrialism and political economy, a last “methodological” observation seems appropriate. Adam Smith’s great work was a study of complex historical processes *overtime* at particular key points *in* time. Connections between business and politics, technology and business, between all that and the material conditions of diverse groups – “classes,” Smith called them – were a major focus. That method of inquiry came to be termed “political economy.” From the 1860s onward, economic thought became “modern.” In that process, one after another – and ultimately all – of those “connections” were set aside, taken as “given” – that is, left unexamined, ignored, even seen as not having meaning.

During and in the aftermath of the depression of the 1930s, such economics lurked fecklessly in the shadows. Now it is back again. And its eager and vociferous cohorts seem close to having defined out of existence the “political economy” that once did and still should form the bedrock of economics as a discipline.

Smith, the first economist, had studied how (almost) all matters relevant for his analysis functioned and interacted. It may be wondered how many mainstream economists today – while claiming *The Wealth of Nations* as the basis for “free market economics” – have studied any, let alone all, of the relevant connections. Indeed, it may be wondered how many of them have ever even read Smith, and if they have, what their reactions were to Smith’s view of “businessmen”:

an order of men whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public, and who have, upon many occasions, both deceived and oppressed it. (1776, 250)

Yet, Smith’s work was seminal in facilitating the triumph of precisely that “order of men” over any and all other social forces. How and why Smith could come to such seemingly conflicting conclusions is part of what we next consider.

Part I: 1750–1945

Birth: The Industrial Revolution and Classical Political Economy, 1750–1850

THE START OF SOMETHING BIG

Just as Medieval Europe grew out of the decayed remnants of the Roman Empire, and did so in consequence of innumerable and diverse struggles over long stretches of time and space, so did capitalism thrust its way into history over the enfeebled elements of monarchical–mercantilist Europe. But, as noted in the Prologue, capitalism could do so only in dynamic, uneven, and often explosive relationships with its siblings – colonialism, nationalism, and industrialism.

The ensuing centuries, whether viewed in quantitative or qualitative, in economic, social, cultural, political, technological or military terms, or as a set of achievements and disasters or both, made all preceding epochs seem quaint in comparison.

That the industrial revolution and robust capitalism took hold first in Britain is now rarely disputed; nor, any longer, are the reasons why it all took place there and then, and not elsewhere. The reasons are many – the appropriate resources, a long history of pre-modern industry, of involvement in global commerce and extensive colonial holdings and finally and critically, a relatively fluid social process compared to others at that time.

Capitalism lives by change, produces it as no other social formation, and *needs* it as no other, as Marx had seen in 1848: “Constant revolutionizing of production, uninterrupted disturbance of all social conditions ... ” But its very birth required much in the way of changes, also. To understand how and why that requirement was met first in Great Britain it is pertinent to expand on generalizations made in the Prologue by comparing Britain with France – a seemingly likely competitor for becoming an industrial capitalist nation. In the event, however, France trailed Britain by more than a century.

Why Britain took the lead

A casual look at France’s relevant characteristics in the seventeenth and eighteenth centuries would suggest a different outcome, for it too appeared

to possess the prerequisites. In addition to being the oldest and the strongest of nation-states, France claimed a substantial empire and excellent natural resources, had a relatively large population, and it too was dotted by thriving pre-modern industries. But, a closer look – most notably that of John U. Nef, in *Industry and Government in France and England, 1540–1640* (1940) – shows that France lagged behind not only Britain throughout the nineteenth century but also the as yet non-existent Germany¹ and the new United States – not because France lacked the vital material bases for industrial capitalism, but because of the social framework and standards that led to the misuse of its advantages.

That this would be so had its roots most especially in what happened as regards the State in England but did *not* happen in France – and why – most pointedly in the seventeenth century. As the 1640s began, England was entering a new period of institutional transformation, which broke the ground for the socioeconomic flexibility enabling modern industry and capitalist rule to come into being. France, meanwhile, though richer and more powerful than England, was developing increased socioeconomic rigidities. Thus, to mention “1640” in England would elicit the likely response: “Puritan Revolution.” For the French the response (setting the arts aside) would focus instead on the splendor of the court and the military prowess of Louis XIV’s France; and his first minister, Colbert, was the most insistent and the most coherent of all “mercantilists” – the main target of Smith’s *Wealth of Nations*. In the very years when Britain was moving toward industrial capitalism, Napoleon was expanding east and south, through Europe and into the Mediterranean.

Seemingly unbeknownst to the French, the strengthening of British industry would also bring military superiority, on land and sea; meanwhile, the French derided them as becoming “a nation of shopkeepers.” When the stodgy British defeated Napoleon at Waterloo, they also gained a growing hegemony over the economic development (among other matters) of Europe. The added strength engendered more of the same, sufficient to allow Britain to “rule the waves” – both literally and figuratively – for the rest of the century.

The Puritan Revolution has often been seen as being more “bourgeois” than “Puritan,” but the division is more usefully viewed as one between traditionalists and republicans.² Its main consequence (for present purposes) was the breaking up of debilitating remnants of feudalism and the codification of limits on the power of the Crown. By the mid-eighteenth century that meant more leeway for unfettered *private* power.

Commodification as revolution

The key element in that freeing-up process – wherein traditions of social control and stability were displaced by commercial criteria and violent

change – was the “enclosure movement” of the late eighteenth century.³ What was being “enclosed” were the agricultural lands of Britain, whether for the grazing of sheep or the cultivation of grains.

The most important result of the enclosures was the commodification of both land and labor: the transformation of countless thousands of small farms into (by 1790) giant holdings (2,000–3,000 large landlords owning 75 per cent of the cultivable acreage). “Commodification” meant that all goods and services would be up for sale; thus it also meant the elimination of traditional social protections. A major result of all this was a class of powerless, dispossessed farmers, able to survive only by “welfare” or *de facto* slave labor.⁴

The resulting conditions for what had been “a bold peasantry” were considerably worse than those just noted, cruel though they were. The whole way of life of a large percentage of the population was destroyed; and though traditional rural life often (though not in all respects or always) deserved Marx’s characterization of “idiocy” (to which could be added brutality), it had its virtues as well. Be that as it may, the fate of what had been rural people in the century stretching from 1750 to 1850 became for several generations a living urban hell – a hell made of cotton.

Before pursuing the important direct and indirect role of cotton in British development and the distribution of its benefits and costs, it is more than simply relevant to undertake a specific statement on the role of the State in the industrial capitalist processes of Britain. This, not only because that role *was* important, but because the role the State has played in the economic development of *all* nations has been (and remains) so generally ignored, denigrated, or denied – or simply misunderstood. Rarely is that the case for economic historians. Usually it is the case for economic theorists and the ideologues of capitalism (often the same people): one of the larger sets of “misunderstandings” prompting this book.⁵

THE STATE: NOW YOU SEE IT, NOW YOU DON’T

All agree that what the State has or has not done has been and remains of great importance in the development of society. Beyond that simple statement, disagreement begins and becomes sharp. When has the State’s role been beneficial and when harmful? When vital and when of small consequence? What is the “composition” of the State, as between public and private institutions (or even persons)? These and other such questions place an examination of the role of the State in a context of both theoretical and ideological dispute, while raising still another, analytically more intricate question. To what degree and in what ways does the relationship of the State to economic development reveal and in what ways conceal the changing structure and functions of social

Virtually all the debate over these highly charged questions between those who wish to minimize and those who wish to extend the State's role centers on easily discernible, specific policies: statutes, regulations, fiscal and monetary and commercial policies, subsidies, welfare, and the like. But a minimal understanding of the State's role requires that we also comprehend what the State has forced or allowed to be prevented or *undone* and, among other matters, what the State has been responsible for that did not appear in specific actions; that did not, often, "appear" at all.

To appreciate the complications – and the importance – of this point would of course require going well beyond what is practical here. But an initial grasp of the important confusions may be had by a study of the quote that follows, a statement made by a reputable mainstream economic historian of both Britain and Germany, W.O. Henderson. He declares of Britain that

In the age of *laissez-faire* the role of government in economic affairs was a passive one ... The social evils in town and countryside that followed in the wake of the Industrial Revolution might have been alleviated at an earlier date if the governing classes had been better informed about the great changes that were taking place in the mines and factories ... The government was inactive because it saw no good reason why it should do anything.⁶

The "passivity" and "inactivity" of the "government" and "governing classes" are the key terms here. They stand in most minds for the role of the British "State" in the industrial revolution, as they did in Henderson here (and elsewhere in his writing). But, meticulous researcher that he was, he *could* surely have learned that "the governing classes," far from being passive and inactive, were the prime movers, and, as well, the prime beneficiaries of the "social evils" and the "great changes" of the time. Furthermore, that their "inactivity" and inability to see any "good reason" why they "should do anything" are explicable in terms of their combination of private self-interest and public power.

The government of Britain in the "age of *laissez-faire*" – whether in the Commons or the Lords – was made up largely of landed gentry and nobility and those (some being in the latter groups also) incipient or emerging "Whigs" whose power and aspirations centered on those dreadful and always deepening and expanding coal mines and hoped-for expanding trade (not least with colonies, where conditions were made at least as bad) and industry. Those public and private "roles," taken together (and setting aside the always weakening Crown), were then tantamount to much of what can be meant by "the State": then and there, and, in different detail, here and now.

There are surface differences between the evictions of “a once bold peasantry” from their copyholds during the Enclosures (where the agency was Parliament and the “judge” was the prime power in the locality), and the conditions in the mills and coal mines.⁷ Similarly, there were differences between British conditions and those of German and U.S. workers (among others) in their economic processes. But there is more that is common than diverse as between those conditions: in all cases, those who were the State or whose voices resounded in its figurative halls were – as they are still – prominent among those directly responsible for and profiting from those same conditions.

It seems necessary – especially in a capitalist society – repeatedly to remind ourselves that the links between economic and political power are forged of the most durable steel. Indeed, that necessity grows always stronger in the modern world: as democracy has grown, so has the need – and the ability – for those in power to develop and to use direct and indirect modes of disinformation and misinformation, and to suppress plain information regarding those links of power. The generic term for all this has become “spin,” with the media its stage, TV its star performer. Of that, much more in Part II.

As we now return to Britain’s industrial revolution, and the disruption and horrors thus entailed for the largest part of the population, we may note in passing that the absence of democracy in that period very much simplified the tasks of the State at home. Within Britain, the use of force was perennial, with violence only intermittently necessary; abroad, both force and violence were the routine tasks of the State, if there was to be an expanding British Empire.

EMPEROR COTTON

The wool trade had been important in England since medieval times. Its production and trade grew in importance as the eighteenth century progressed; by its end, wool had long been vital to British economic strength. But with the emergence of the modern factory system, signaled by the first factory in 1815, cotton more than took wool’s place. In the eighteenth century, wool production was not located in factories (as we understand the term) but in rural homes – “cottage industry” – usually as an integral complement of an agricultural family’s work.

In the first years of the eighteenth century, the spinning wheel and the hand-loom were the technology of wool production. That the weaving was more efficient than the spinning (with the gap widening from the 1730s on) stimulated the invention of the spinning jenny; by the 1760s the “water frame” had been invented; in the 1780s the jenny and the water frame were combined in the “mule.” That development effectively made cottage industry a thing of the past, bringing water-powered wool mills

into being. Weaving, having fallen behind in efficiency, then developed the power loom as the nineteenth century opened. Watt's workable steam engine had been devised by 1776, and by 1815 that was combined with the mule and the power loom for cotton textiles to become the world's first modern factory.

The foregoing is an instance of capitalism's fusion with industrialization; all along that way, colonialism and nationalism were also doing their part. Wool was "grown" in English acres; cotton came from British colonies – first from the slave plantations of the British West Indies, then from their counterparts in North America – as, surprisingly, did most of the markets. As Hobsbawm points out,

Until 1770 over ninety per cent of British cotton exports went to colonial markets ... mainly to Africa. The vast expansion of exports after 1750 gave the industry its impetus; between then and 1850 cotton exports multiplied ten times over. Cotton thus acquired its characteristic link with the underdeveloped world, which it retained and strengthened through all the various fluctuations of fortune. (1968, 41)

The first cotton factory using steam power, as noted, was not created until 1815. Following upon that, the cotton industry became the principal motive force of the industrial revolution – and, thus, of Britain's commercial, financial, and military dominance of the world, for many decades.

Hell on earth

The working conditions and wages of that first and of ensuing mills – to say nothing of coal mines and other new industries – were simply dreadful: "satanic," as the poet William Blake put it. But at least, by then, there *was* work. The dispossessed rural families from the mid-eighteenth to the second quarter of the nineteenth century mostly had *no* work. In consequence, as the industrial revolution took hold in Britain in the early nineteenth century, something like half of its population were not only very poor and powerless, its men, women, and children were quite simply demoralized: a social disaster now being repeated (in larger numbers) in today's "emerging economies."

The "choices" of a substantial portion of the population were few and stark: to work 12–14 hours a day for a wage barely allowing survival,⁸ or to be effectively imprisoned in a "workhouse" or mine or mill (husbands and wives and children separated from each other – like slaves – often permanently), or to starve.⁹

But that picture is taken from a distance. Moving closer, we see children (aged four to ten years) working¹⁰ in the cotton mills, where their small

hands could manipulate thread and spindle better than adults. Alongside small women, we see them working in coal mines, pulling what we might call “kiddy-carts” of coal through tunnels that could be smaller in diameter (and thus less costly) than those for a full-grown man. That such women and children, once *in* the mines might never escape from them alive (or un-abused), was of course common. As the Hammonds remarked, referring to Britain’s role in the slave trade as the industrial revolution evolved:

the steam engine was invented too soon for the happiness of man; it was too great a power to put in the hands of men who still bought and sold their helpless fellow creatures.¹¹

In the world of ideas, then as now, there were advocates of lunging industrial capitalism who possessed the moral ingenuity to cheer it on, no matter what. One such in industrialism’s infancy was Jeremy Bentham, whose “utilitarianism” and “science of moral arithmetic” will be discussed below. Bentham, referring to small children, argued that the new industrial technology of the cotton mills demonstrated that “infant man, a drug at present so much worse than worthless, may be endowed with an indubitable and universal value” (Stark, 1954). An early instance of what is now called “tough love.”

Given the dynamic relationships between capitalism, colonialism, and industrialism, that with nationalism is conclusively affirmed when we examine its role in the emergence of the cotton industry, and of the latter in Britain’s rise to eminence and power – economically, politically, militarily. “Whoever says Industrial Revolution says cotton,” began Hobsbawm in his chapter on the period (1968, 40); and whoever says cotton must also note the role of the State in taking Britain along that path. Before cotton, wool was the prime industry for England, going well back into the medieval period.¹² The English wool trade was a mighty political force, for it included merchants, the woolen cloth producers, and those raising the sheep. In 1700 the English wool interests prevailed upon the State to ban *all* imports of cotton (“calicoes”) from India – then the leading cotton *cloth* producer in the world.¹³ Though initially meant to serve the woolen industry, and given relevant matters earlier noted, it was the chief element in insuring that the infancy and early developments of the cotton industry would be fully protected from competition. This, of course, in the nation that, with Ricardo, came to be the principal voice for “free trade.”

INDUSTRIALISM IN THE SADDLE

Preceding, nourishing, and nourished by the “revolutionary” transformation and expansion of the cotton industry was, of course, a whole host of other transformed and much-expanded industries: the potteries,

metallurgy and metal products, coal mining and transportation. The drama was most obvious in transportation. Its modernization was of immense significance, not only to all of industry and trade, but to the larger developments of global industrialization, and, not least, for the evolution of colonialism toward the deeper penetration and powers of imperialism.

It was the steam engine that was critical to virtually all these developments: its use required quantum leaps in coal production, gave rise to railroads and steamships, spawned giant factories (for that time) with their belching smokestacks; required, also, a great leap ahead in the nature and production of machine tools – the often unnoticed but key ingredient of modern productive efficiency.

But it was in transportation that the effects were most important. The railroad gave rise to sprawling networks of internal transportation and along with the steamship tied whole continents together quickly and cheaply.¹⁴

When one ponders the full meaning of expanded steam-powered transit, it soon appears that the requirements for the carriers alone (the steamships, the rolling stock and rails for trains) constituted a massive market for a host of vital industries – coal, steel, machinery, construction, etc. That impact would not be equaled until the twentieth century, and the direct and indirect meaning of the automobile industry – if then.

As will be detailed in Chapter 2, the larger economic meaning of all this emerged in the last half of the nineteenth century: the possibilities and necessities of large-scale, mass production and rapid transportation yielded massive increases in agricultural and industrial production – because of *cheap* steel, *cheap* food, *cheap* machinery, and much else – and the relentless beginnings of giant corporations, an integrated global economy, and imperialism. All that enabled and required what has been called a second industrial revolution – which, in its turn became the basis for the industrial revolution(s) of the twentieth century.

Such enormous economic changes could not occur without changes at least as enormous in social (including cultural) and political life. Whatever positive meanings that may have carried for the upper layer of society up to 1850, it constituted a grave and many-dimensional setback for the lives of the majority in Great Britain – whether English, Irish, Scottish, or Welsh. In all those societies, cities and factories and mines grew like weeds – poisonous weeds for well over half of their populations.

The merciless conditions of work in the mines and mills have been suggested above.¹⁵ That could not have happened without the disruption of what had constituted the traditional existence of the majority of the British population – most drastically, of what became its working class.¹⁶

If the horrible conditions and stresses and horrors connected with the passing of one way of life and the forceful passage to another and

unwanted existence were not enough, there was also a deterioration in the quantitative measures of existence. Hobsbawm, after a careful study of the available data and the public statements of the time (from high and low, from conservatives and radicals), comes to the considered conclusion that Sidney Webb, leader of the Fabian (moderate socialist) Society as the nineteenth century ended, was correct when he said:

If the Chartists in 1837 had called for a comparison of their time with 1787, and had obtained a fair account of the actual social life of the working-man in the two periods, it is almost certain that they would have recorded a positive decline in the standard of life of large classes of the population.¹⁷

The Chartist movement was but one of several efforts to change the direction of British socioeconomic development in the first half of the nineteenth century. Preceding it were the periods of protest and unrest marked by the Luddites ("machine-breakers"), the Peterloo Massacre of 1819, and various attempts to reform by workers by forming unions, political efforts toward factory and Poor Law reform and, throughout the 1840s, the Chartist movement for greater political representation of the working class. All these will be examined in one degree or another in the next chapter, when we focus upon labor and socialist movements.

Returning to the "narrower" economic development of British industrial capitalism, it had become clear by mid-century that it would be unable to maintain or increase its momentum without a simultaneously changing and expanding world economy.

In addition to the advantages to Britain of its empire, its economy could flourish over time only with rising exports of commodities and of capital. The latter, used for investment by (for example) Germany and the United States – Britain's main debtors in the nineteenth century – ineluctably meant that Britain's prosperity depended on the creation of what became stiff market competition. By the end of the century the contest was becoming deadly.

Clearly, the period extending from 1750 to 1850 was amazing in both its quantitative and qualitative characteristics. Naturally, then, those developments were accompanied by a flourishing of thought and theory on the whole range of economic, political, and social processes brought forth and required by (especially) British industrial capitalism. Much of that, which came to be called classical political economy, sought to facilitate those processes; some of it, most obviously that of Marx and Engels, stood in opposition. We now turn to a brief critical analysis of the main elements of both sets of arguments.

THE BRAINS TRUST

Adam Smith was the prime inspiration for the theoretical framework for classical political economy, which shortly evolved into capitalism's ideology. In his *Wealth of Nations*, he provided the main arguments against the political obstacles holding back industrial capitalism, and the claim that the "wealth of the nation" would be enhanced by their removal and the emergence of freely competitive markets.

Ideas compatible with Smith's had been proposed earlier – Locke on property, Defoe on labor, Petty on trade, for example. But it was Smith who first constructed a comprehensive attack on "the mercantile system" still dominant in his time, and matched that with a coherent analysis of the possibilities of a "*laissez-faire*" economy.¹⁸

Comprehensive though he was, and as is to be expected with all innovators, Smith had provided "only" a framework. First, Smith's main arguments will be examined. Then, more briefly, we take up the leading ideas of Ricardo, Malthus, Bentham, Jean-Baptiste Say (1767–1832), and Mill. They pursued Smith's reasoning and completed the structure with more particular analyses: Ricardo on foreign trade, Malthus with a pseudo-scientific rationale for social harshness,¹⁹ Bentham (in addition to his two cheers for child labor) the theory of human nature that still underlies economic theory, Say the basis for the "macroeconomic theory" (or, more accurately, the rationale for its absence, until Keynes), and Mill the synthesis (and what may be seen as the requiem) for classical political economy.

Following Mill, in the 1850s and 1860s, what was taking hold as an economics profession sought both to rid itself of the weapons (especially the labor theory of value) classical political economy had provided to the likes of Marx and, as well, to smooth the way for the industrial capitalism Smith had argued for and that by 1850 in Britain was in place. The outcome was "neoclassical economics," (see Chapter 2). First we turn to Adam Smith's great work.

Adam Smith

A professor of moral philosophy, Smith became the first "economist," as distinct from the earlier "tract" writers – who proposed or opposed *particular* economic policies – preceding him in the long mercantilist epoch. Given the breadth of his sweeping program for socioeconomic reform, Smith reasonably felt impelled to support his arguments with something of a theory of human nature.

In keeping with much of the social thought of his time, Smith posited an inherent "natural order," an order best left to itself – which, for Smith, meant removing the power of the State from the economic process: letting

things be. The basis of his presumed natural order was human nature; that in turn for Smith consisted of six “motives”: self-love, sympathy, the desire to be free, a sense of propriety, the habit of labor, and “the propensity to truck, barter, and exchange.”

Whatever its limitations, Smith’s view was considerably more sensible than what came to be and remains the bedrock of economic theory: “*homo economicus*.”²⁰ Let people be, argued Smith, and the beneficence of Providence will provide that social order which, though far from perfect, is the best to be had.

Assume that all the motives Smith noted do in fact exist in most of us (at least in western culture). But so do many other motives, just as “natural.” Many of the latter are *irrational*, some are downright ugly: “the seven deadly sins,”²¹ plus fear, shame, hate, and others. The world advocated by Smith and, considerably more, that championed today by mainstream economists, a world in which *all* social traditions are set aside by “the free market” for *everything*,²² would yield a society which, although we are perilously close to it, has yet to be fully experienced.

Be that as it may, it was not Smith’s notions of human nature that accounted for the impact of his work, but his political economy. His critical emphasis was on the entrenched barriers standing in the way of technological progress and what today is called “venture capital” then struggling to gain momentum. Those barriers were at the center of what Smith called “the mercantile system.”

That system had begun to take hold more than two centuries earlier, when capitalism and industrialism were still in embryonic form. The world then was caught up in constant warfare between the several rising nation-states, all of them scrambling for territorial advantage in Europe and overseas. The State needed merchants, financiers, and industries (not least those for ships and arms), and the “businessmen” of that time needed the State: tariff protection at home, naval protection on the seas and at their overseas destinations, and monopolistic privileges in both trade and industry (such as, respectively, the East India Company and the Batteries Royal). All that and more were essential for economic and national survival in that early modern period. By 1776, however, the very successes of that system had become sand in the economic gears, gears in any case rusted by many decades of corruption.

Thus, when Smith presented his case it was at a time and place such that British political and business support – outside the charmed circle surrounding George III, that is – grew quickly. Within a generation or so the first modern factory, which had been institutionally impossible in 1776, was in place; and the sociopolitical context Smith had argued for was being forced into existence. The stage for modern economies and their economics was set.

Smith's critique of the cupidity and stupidities accompanying mercantilist ways and means was fully justified; his hope that industrialization would over time bring meaningful improvements to the lot of ordinary people was much less so. He did not foresee the deterioration of life that would be experienced by generations of workers as *all* barriers to capital's self-interest were removed. Nor could he anticipate that industrialization would bring about the disappearance of the "invisible hand" of competition he depended on to transform "individual self-seeking into social well-being." In retrospect it is easy to see that innumerable small firms would be brushed aside or swallowed up by giants, and supplant competitive pressures by monopolistic arrangements. Expanded efficiency indeed there was; its benefits went mostly to the top of the social pyramid.²³

Obliviousness to the "side-effects of successful industrialization" may be forgiven in Smith;²⁴ it is quite another matter to forgive the indifference of today's economists to the facts of the realized past and of the present: their ignorance, one may say, is cultivated – an element of their training.

"Invisible hand" or "invisible fist"?

The competition lauded by mainstream economists and business has been replaced by rivalry in the key sectors of the economy, and is very close to the opposite of what Smith hoped for. The ubiquitously small firms of a "Smithian" competitive market perforce would strive always to reduce costs and would be powerless to set their prices above those sufficient only to meet labor and materials costs, "managerial wages," and interest payments.

Today, in sharp contrast, the rivalry between giant firms (GM, Ford, Chrysler, amongst others) is manifested largely in costly advertising and equally costly product differentiation (including "deliberate obsolescence"). The costs are passed on as higher consumer prices, enabled by the agreements made among and between the small number of companies ("oligopolies") which are characteristic of modern industry in all nations.²⁵ Smith's critical focus was appropriately on the misuse of State power; he did not anticipate the baronial power that would be sought and gained by the enormous companies industrialization facilitated – and that a compliant State has allowed.

Smith's *Wealth of Nations* is regularly cited as a support for the free marketry that now rules economics. Those who do so needs must ignore (or be entirely ignorant of) Smith's negative views of businessmen, including those cited in our Prologue.²⁶

Given Smith's time, place, and social framework, his book may be seen as a master work. It combines a coherent historical, political, and

economic analysis with a social philosophy to a remarkable degree. And it may be seen as being as much a scientific work as is reasonable to expect of social analysis – where “scientific” is meant to comprise some combination of observed fact, logic, and testable hypotheses. There have been all too few others in the mainstream tradition who have worked in comparable terms.

Comprehensive as Smith’s *Wealth* was though, it slighted at least two major economic processes: those that became the province of foreign trade and of macroeconomic theory. The former was soon taken up by Ricardo; the latter (presumably) by Jean-Baptiste Say.²⁷ Ricardo, as we will now see, left his mark not only on trade theory, but on the process of theorizing itself. In both respects his ideas continue to dominate economics and economic policy today – if anything, more so than in his own time.

David Ricardo

As the term “scientific” has been used above, Ricardo qualifies, but only barely.²⁸ Science combines inductive with deductive reasoning. Induction generalizes from observable realities; deduction depends on logic – conclusions derived from a set of definitions, premises, assumptions, and inferences.

Ricardo argued within his innovative (and long-lived) framework of abstract, deductive theory. Unlike many theorists today, Ricardo was not ignorant of economic realities. He had spent much of his adult life in the world of finance, and successfully so; and he had a keen sense of the economic strategy that would most benefit Great Britain: global free trade.

As with Smith, Ricardo’s ideas had their predecessors. Principally, in his case, those of Grotius, in – and for – seventeenth-century Holland (from where Ricardo’s parents had emigrated). Ricardo’s *Principles of Political Economy and Taxation* came out in 1817 and its policies triumphed in Britain in the 1840s, after a bitter struggle over “the Corn Laws.” As we now examine that issue and Ricardo’s theory, both the reasons for his theory and its triumph will emerge. Considerably more important (and difficult) to comprehend is why a theory enunciated so long ago would remain virtually intact today, both in form and content, in a world so utterly different.

Just as Smith was able to discern the possibilities of modern industrialization in its embryonic beginnings of his own time, so too was Ricardo prescient in seeing that Britain was on the verge of becoming an industrial economy (as distinct from an economy with some industry in it) and that, as such, it would have to import ever-increasing volumes of always more diverse commodities, and would need rising exports to help pay for those imports. The imports would consist increasingly of foodstuffs and industrial raw materials, the exports of industrial

commodities (coal, cotton cloth, machinery, etc.). And, to the degree that there was no hindrance to exports or imports by tariffs (taxes on imports), Britain's industrialization would proceed apace. The latter was also Smith's goal, of course, but it was sufficient to his purposes to emphasize economic freedom in general.

The gospel of free trade

The most important obstacles to free trade in Ricardo's day were the seventeenth-century "Corn Laws." They provided a protective tariff on imported grains. By 1817 those laws protected *all* farmers – small and inefficient, large and efficient. The latter were the politically powerful landed gentry, and the main beneficiaries of the tariff.²⁹ The tariff on imported corn meant a handsome "rent" – or, as Ricardo used the term, an unearned income – a return not to production but to power.³⁰

The larger significance of this lay in the fact that the main item of "subsistence" for workers, and thus of costs of production, was food (in turn, largely, bread) the price of which was artificially inflated by the tariff. Thus the enhancement of landowners' profits implied a rise of workers' (money, not real) wages. That, Ricardo argued, meant lower (money *and* real) profits and thus the retardation of industry – to the benefit of the landed gentry. The latter were the main political power in 1817; by 1846, after a major political struggle the Corn Laws were repealed, for the rising business class was then sufficiently in the ascendant to swing Parliament its way.

The key theory underlying Ricardo's argument for free trade was "the principle of comparative advantage." Adherence to the policy implied by that principle – the abolition of *all* barriers to trade – would, "other things being equal" (about which more in a moment) – bring about maximum efficiency in global production, and thus the highest possible level of life for *all*. Very soon after the repeal of the Corn Laws, Marx (in a speech delivered before the Democratic Association of Brussels, January 9, 1848) made an observation that might as easily – and as accurately – be made today:

Every one of the destructive phenomena which unlimited competition gives rise to within any one nation is reproduced in more gigantic proportions in the market of the world.

If the Free Traders cannot understand how one nation can grow rich at the expense of another, we need not wonder, since these same gentlemen also refuse to understand how in the same country one class can enrich itself at the expense of another.

Ricardo's theory still holds sway, with always greater force, always greater damage. To even begin to grasp why that is so, it is essential to

pause to explore those “other things” and their “setting aside,” which became and remains the life-support system of economic theory.

Abstract theory versus earthy realities

The “other things” are the nesting-place of abstract economic theory’s assumptions which, to the degree – and *only* to the degree – they are reasonably approximated in reality, give the theory any validity it might possess.³¹ But the devil, always, is in the details.

Such details made Ricardo’s theory problematic even in his own century; and considerably more so today. Whether then or now, the meaning of such detail emerges mainly from what it reveals about the sources and consequences of power. This in mind, let us examine his “principle” in his time (and again, in Part II, for our own time).

The gist of the principle is that each *nation* should produce that in which it is *relatively* most efficient. Ricardo’s now classic example was for wine and cloth, Portugal and Britain. Thus, even assuming that Britain could produce both cloth and wine more efficiently than Portugal, but produce cloth with relatively greater efficiency than wine, then Britain should *specialize* in cloth and import wine; and Portugal should stick with – even if that meant getting stuck with – wine.

What, for Portugal and Britain, were the other things that were to be taken as “equal” – that is, set aside, left unexamined, to be ignored? Among them is that Portugal would never produce anything *but* wine (or other agricultural products), while Britain would produce *all* the cloth and – given the dynamic qualities of industrialization – develop in such a manner as to produce many (or all) other industrial commodities over time.

Thus Britain would *logically* become *the* paramount industrial nation. In doing so, it would also become increasingly powerful, “modern” (in terms of education, health, politics, military strength, etc.); meanwhile, Portugal (and its like) would remain hewers of wood and drawers of water – and an economic colony of Britain (which, in fact, Portugal became); or worse. Rule Britannia.

Ricardo may or may not have been conscious of the implications of his principled theory; policy-makers in all other countries strong enough to act with relative independence *were* conscious of those implications. Accordingly, they acted to protect their economies from Britain’s otherwise unbeatable competition: they surrounded themselves with protective tariffs and subsidized their industries (among other devices) to “level the playing field.”

First among those countries was, of course, the United States. Its national (“Hamiltonian”) policies became a major element leading to the Civil War – the American South Smithian/Ricardian (Britain its principal customer for cotton, rice, and tobacco, and its source of imports), the

North Hamiltonian, seeking to protect what the latter had dubbed its “infant industries.” And thus it went throughout the nineteenth century, for Germany,³² France, Italy, Japan, *allowing* them to become (with Britain and Canada), today’s dominating “Group of Seven.”

The gist of Smith’s and Ricardo’s economic arguments will be examined again in later chapters when their application to the contemporary world’s economic processes is critically examined. Shortly there will be a discussion of Malthus and Bentham, the two main architects of the ideas underpinning the social policies and social philosophy (if such it can be called) of capitalism throughout its full-blown existence, and with awful and renewed vigor even today. But first a brief look at a minor economic notion that had a major existence, the non-macroeconomics of Say.

Jean-Baptiste Say

Followers of Adam Smith had a rough ride on the Continent, and most especially in Say’s France. (For a brief while, it seemed to catch on in Germany, where it was called “Smithianismus,” but the Prussians put an end to that.) Although Say deviated in important analytical respects from Smith,³³ he may be seen as one of the most ardent and useful voices for “free markets.” That he failed dismally in France, despite strong efforts in the first quarter of the nineteenth century, was unavoidable, for France was the most avidly mercantilist nation in Europe.

His lasting contribution was not in the analytical realm he pressed for most (“utility”), but in his enduring “law of markets” which applied to what is now seen as the macroeconomy. Although, as will be seen, “Say’s Law” was given a belated death sentence by Keynes in the 1930s, it was revived in the Reagan era, and is now very much alive and kicking.

Depression is impossible

For present purposes, the nub of Say’s “law of markets” was that overproduction cannot happen: “supply creates its own demand.” Say never put it as succinctly as that, but that was the gist of his position. Accepting his idea leads easily to the firm stand that it is *never* necessary or desirable to interfere with “markets” whatever trouble they may seem to have brought. Trouble – whether of failed businesses or long lines of unemployed – will ultimately take care of itself; trying to speed up the process only introduces distortions to the economic process.

As with Smith and Ricardo, Say’s analytical failings may be “forgiven” in part when we understand that he was writing in the very first stages of industrialization, with a whole world yet to walk that path. Much of the world has yet to do so; but when Say wrote his *Treatise on Political Economy* (1803) only one small part of the world – Britain – was moving strongly toward doing so. When, as the nineteenth century unrolled,

industrialization spread from Britain to the Continent, the United States, and Japan, there seemed a certain credibility to Say's notion – a credibility dependent on, however, global industrialization being in its *early* stages.

Thus, there were processes of expansion and contraction throughout the century (“business cycles”) which indeed did “correct themselves.” Both the expanding and contracting phases went on without governmental intervention in the form of the monetary or fiscal policies now associated with Keynesian theory. But that “bounce” did not exist for the reasons Say posited, those having to do with the *impossibility* of their being production that would not be taken off the market at a reasonable price. Instead, and in somewhat more technical language, throughout the nineteenth century there was a relative *shortage* of capital and savings for the amount and kinds of industrialization under way.

By contrast, in the years leading up to and following World War I, there was a shortage of *buyers* – whether of capital or consumer goods – a *surplus* of capital and of savings: that is, there was what Say had seen as impossible: overproduction (or “underconsumption”) or, a third term coming to much the same meaning, excess productive capacity.

When, in the 1930s, the depression dragged on, the economics profession (most especially in the United States) clung to Say's Law, and argued that the cause of depression and unemployment was that workers were demanding excessive wages: the very workers who were standing in those long bread lines, their families near starvation, sinking into misery. Stubborn, stubborn workers: *dummkopfen*.

Say's wishful thinking was replaced with Keynesian theory in 1936, by which time the depression had made Say's “law of markets” appear to be a joke in very bad taste – as will be discussed at length in Chapter 3.³⁴

Now it is time to examine the ideas of Malthus and Bentham, who – although not in accord with what may be seen as Smith's social values or philosophy – were both well suited to capitalism's needs and the emerging economics that rationalized them.

Thomas Robert Malthus

For reasons soon to become apparent, Malthus was opposed to industrialization; it is thus a major irony that his social theories did much to ease its way – both in his century and ours. Implicitly or explicitly those ideas are today at the center of the rationalizations used to justify social savagery against the poor.

As the son of a landed gentry family, Malthus enjoyed a very comfortable life from birth: he graduated from Cambridge University, was a parson and a professor, and spent much of his time writing. In the first period of his writings (twenty years or so beginning in 1798) he developed diverse variations on his obsessive “theory” that seeking to help the poor

hurts them and everyone else – a position that led him, as will shortly be seen, to advocate their deliberate elimination – by any means short of murder (preferably starvation or disease).

His later work, in his continuing spirit of anti-industrialization, sought to show that industrial capitalism was an unstable economic system, subject to what he called “gluts” – supplanting what he saw as a stable (and more desirable) agrarian society. The passage of time proved him right, though not for the reasons he imagined.

First, his cold-blooded advice about the poor. His fundamental “theoretical” position is of course famous: population has a tendency to increase at a geometric rate, food resources only arithmetically: 1, 2, 4, 8, 16, ... versus 1, 2, 3, 4, 5, ... On the population side of that extraordinarily counter-factual theorem, Malthus contended, the fault lay with the poor. It helps us to understand Malthus’s attitudes if we recall that in 1798, when he wrote his (first) *Essay on Population* (1798),³⁵ there was considerable social unrest and agitation, prompted by the socioeconomic devastations following the enclosure movement (heated up more than a little by the hysteria crossing the Channel from revolutionary France).

The Poor Laws (dating back to medieval England, and revised in Elizabeth’s reign), where “poor” signifies unemployed, required that the poor in each parish be assisted through what we would call local taxation, levied principally on the landed gentry of that same parish: the very social class of which Malthus was a member. It is crude, perhaps, but not too crude, to suggest that Malthus’s social ideas were at least in some degree influenced by his social position.

Instead of indicating the details of his analytical and policy positions, it seems sufficient to provide the encompassing long quote that follows. If Malthus possesses any virtue at all, it resides in the brutal honesty revealing his *hatred* of the poor. To his credit, at least he did not, as is so common now, put forth circumlocutions culminating in cute phrases such as Daniel Moynihan’s 1960s “benign neglect” and its 1990s successor, “tough love.” Now hear this:

It is an evident truth that, whatever may be the rate of increase in the means of subsistence, the increase in population must be limited by it, at least after the food has once been divided into the smallest shares that will support life ... All the children born, beyond what would be required to keep up the population to this level, must necessarily perish, unless room be made for them by the deaths of grown persons ... *To act consistently*, therefore, we should facilitate, instead of foolishly and vainly endeavouring to impede, the operation of nature in producing this mortality; and if we dread the too frequent visitation of the horrid form of famine, *we should sedulously encourage* the other

forms of destruction, which we compel nature to use. Instead of recommending cleanliness to the poor, we should encourage contrary habits. In our towns we should make the streets narrower, crowd more people into the houses, and court the return of the plague. In the country, we should build our villages near stagnant pools, and particularly encourage settlements in all marshy and unwholesome situations. But above all, we should reprobate³⁶ specific remedies for ravaging diseases ... If by these and similar means the annual mortality were increased ... we might probably every one of us marry at the age of puberty, and yet few be absolutely starved. (1970, 2:179–80; emphases added)

Not quite what Jesus had in mind, one may believe, when he said, “Suffer the little children.”

Malthusian ideas about population and food supplies, and of the responsibility of the poor for their plight, are as lively today as ever; perhaps more so. But not with relevant members of the scientific community: demographers, biologists, and many others (including some studious economists) are in agreement that from the moment Malthus first wrote, up to and including the present, food supplies over the globe have *always* grown more rapidly than the population.³⁷

Reality has been unkind to Malthusian *theory*; but that has not dampened the enthusiasm for his policies against the poor.³⁸ We have not, of course deliberately brought on “plagues” (at least not of the medieval sort he envisaged which, of course, smite the rich as well as the poor).³⁹ But, and except for an interval after the 1950s, Malthusian policies have been in place (again, most especially or only in the United Kingdom and United States), in the specific sense that economically plausible steps to lower the percentage of poor among us – or to eliminate poverty entirely – have been at best halting and hesitant, have always stigmatized the poor in the process,⁴⁰ and have most recently been for all practical purposes abandoned – with, it must be added, a certain glee in many quarters. Nor should it be forgotten that the continuing existence of a sizable percentage of poor and powerless people suits the political economy of capitalism. They serve as a warning to those workers *not* poor and, all too often (and among other “uses”), serve as a target upon which to vent frustrations – especially when, as is common, they combine with racist attitudes.⁴¹

Before turning to Bentham, a few sentences about the Malthusian theory of “gluts.” Analytically, Malthus anticipated Keynes in important ways, most especially in arguing (in his *Principles of Political Economy* [1820]) that there could be periods of what Keynes called “inadequate effective demand,” and associated depression.

Like Keynes, Malthus was seeking to keep his society from plunging into a chaos prompted by economic disaster. But Keynes was concerned to preserve capitalism from committing suicide; Malthus sought to stave off industrial capitalism, which he saw as destroying the “one true and socially useful [that is, his] class”: the landed gentry.

For the landed gentry, Malthus had a sweet argument to make his case for “gluts.” He saw three classes: workers, capitalists, and the landed gentry. Of them, only the gentry consumed adequately. Workers had just enough to survive; capitalists (this is before industrial corporations) put as much of their profits/income into further investment as possible; only the leisured gentry had both the incomes above subsistence *and* the desire to spend it on consumption. But industrialization ground away at the very existence of the landed gentry. Solution: slow the processes of industrial capitalism (even better: roll them back!).

Unsurprisingly, little attention was paid to that set of Malthus’s ideas: they suited the powers of a dying, not a rising socioeconomic system. All the more revealing, then, that this anti-industrialist’s ideas on population and poverty survived and strengthened as industrialization proceeded. That survival was aided and abetted by Bentham, however – indirectly, and whether or not unintentionally.

Jeremy Bentham

Generally seen as the effective originator of “Utilitarianism,” Bentham’s life-span (1748–1832) almost coincides with the period of the industrial revolution; and his 60 productive years as a published thinker overlapped with the formative years of classical political economy. His principal contribution to economic thought was what came to be called utility theory – the bedrock of the economics that took hold in the 1860s and that has come to dominate once again in our own time.

That theory, as noted earlier (and as will be discussed further in Chapter 2 and again in Part II), first emerged in the 1850s, a full generation after Bentham’s death. That he was the initiator of those theories is among the intricate puzzles of intellectual development; but that his arguments came to be embraced is easily explicable in terms of capitalist political economy.⁴²

The theory of human nature standing at the center of Bentham’s utilitarianism was contained in his *An Introduction to the Principles of Morals and Legislation* (1780). There he set out his “principle of utility”: human beings are governed by the striving after pleasure and the avoidance of pain: “in all we do, in all we say, in all we think.” Sounds fine, until you reflect on it. Except tautologically, much that is done voluntarily has little or nothing to do with pleasure; and much that is done voluntarily brings us much pain (childbirth; raising children). Much

that we do, more generally – except tautologically – has little to do with *either* pleasure or pain.⁴³ This philosophical notion became the basis for what was called “psychological hedonism” – itself the basis for neoclassical “utility theory.”

That this theory became lastingly important well after Bentham’s death is not difficult to explain. Classical political economy had at its theoretical heart the so-called labor theory of value. It was expressed loosely by Adam Smith and carefully by Ricardo. Nor, in this connection, is it unimportant to remember that Ricardo, in the very first paragraph of his *Principles*, gave primary importance to understanding the “laws” of income and wealth distribution – as between the three classes of the population:

The produce of the earth – all that is derived from its surface by the united application of labour, machinery, and capital, is divided among three classes of the community, namely, the proprietor of the land, the owner of the stock or capital necessary for its cultivation, and the labourers by whose industry it is cultivated. But in different stages of society, the proportions of the whole produce of the earth which will be allotted to each of these classes, under the names of rent, profit, and wages, will be essentially different ... To determine the laws which regulate this distribution is the principal problem in Political Economy ...⁴⁴

As the industrial revolution and capitalism moved toward mid-century, the class struggles over what those “laws” would be were three-fold: “capitalists” versus the landed gentry (the struggle which concerned Ricardo in his work), the capitalists versus the industrial workers, and the workers versus both the landed and industrial powers. By mid-century, the gentry had effectively lost power (except for what was an occasional veto in the Parliament); what remained was an increasingly bitter struggle between workers and the capitalists of mine, mill, dockside, rail, and ships.

In such a world, the less discussion of class (of any sort), the better. Utilitarianism and its offspring, the utility theory of economics, shifted the focus away from such matters – matters of production – and toward the psychological/mental states of all economic “units” – consuming, working, business, whatever, “units” – and “the market,” where things (all commodities, including work “units”) are bought and sold, and where the buyers and sellers behave in response to anticipated pleasure or pain.

In the next chapter I discuss this doctrine more fully. It is one that depends on everyone, everywhere, all the time, being calculating, rational human beings: no classes, no history, no past, no tomorrow (that could be

right); just buying and selling, rationally, all of us, all the time. And a cigar, Dr. Freud, is just a cigar.

John Stuart Mill

Of Mill, the enthusiasts of free market capitalism, both in his own time and ours, could well cite the wry complaint “with friends like him, we have no need of enemies.” Mill’s *Principles of Political Economy* was published in 1848,⁴⁵ “the year of revolutions” – more exactly, clamorous uprisings in major *cities* (Paris, Vienna, Berlin, Frankfurt, Milan, as distinct from France, Austria, Germany, Italy). London, too had its upheavals, but of a different sort.

On the Continent, although workers were much involved, the tumult and shouting were aimed more at moving toward political freedoms and bourgeois rule than, as in England – already long under “bourgeois” rule – where, led by the Chartists, better lives and more power for the working class were the central element.

J.S. Mill’s father James was one of the most intransigent of the classical political economists; and he raised his son very deliberately to follow in his footsteps – beginning at the age of three with the study of the classics, in the original Greek and Latin. But, as Eric Roll has put it, J.S. Mill’s work can only be understood against the background of the increasing challenge of socialism (1946, 389). That is, in Britain the already strong hold of industrial capitalism had brought forth the first prominent manifestations of modern class struggle. J.S. was an ardent supporter of *laissez-faire* ... but. The “but” had to do with his equally firm belief that the free market should *not* be left to itself, that it required governmental intervention to protect labor and the land: the core of the system, of course. Consider this famous (among capitalist converts, infamous) statement:

If, therefore, the choice were to be made between Communism with all its chances, and the present state of society [1848] with all its sufferings and injustices; if the institution of private property necessarily carried with it as a consequence, that the produce of labour should be apportioned as we now see it, almost in an inverse ratio to the labour – the largest portions to those who have never worked at all, the next largest to those whose work is almost nominal, and so in a descending scale, the remuneration dwindling as the work grows harder and more disagreeable, until the most fatiguing and exhausting bodily labour cannot count with certainty on being able to earn even the necessaries of life; if this, or Communism, were the alternative, all the difficulties, great or small, of Communism, would be but as dust in the balance.⁴⁶

Whatever one might think of that entire quotation, it remains cogent as regards the inverse relationships between work and income. Those who accuse the poor of being lazy have failed to observe that those they demean almost always work harder, longer, and at totally unenviable jobs than those whose incomes are one multiple or another of that of the poor. Thus, there breathe no professors with senses so dull that they would envy the workload or its content of the janitors in their buildings; but had they had the same life-opportunities from birth as the professors – and unless one believes that janitors are constrained to be so only or mostly by mental incapacities – one doubts there are janitors who would not trade places with the professors. (To say nothing about the comparisons one could make with the janitors who work for millionaire Wall St. speculators.)⁴⁷

But back to Mill. His synthesis of classical political economy was from its beginnings marked by analytical confusion and contradictions – occasioned not by lack of intelligence (of which he had an abundance) but by his inability to have his thoughts dominated by the ideology implicit or explicit in classical political economy.

His conflicts with received doctrine were analytical as well as “political.” Thus, he argued – contrary to his acknowledged master, Ricardo – that wages were not unavoidably determined by the level of subsistence, but that, rather, their level was *set* by the owners of the means of production at what they considered a desirable rate of total profits (less their own consumption standards). It was not some abstract market, but *power* that set wages; just as, for Ricardo, wages rise and fall in keeping with the power of the landed gentry to set tariffs. And so on. It was of course this very nexus on which Marx was to focus (not in 1848, but in *Capital* [1867]).

In the final pages of *Principles*, Mill, this time in agreement with Ricardo, argued that there is a relentless tendency for the rate of profit to fall – an argument reiterated by Marx and, in his own way, by Keynes. But, Mill saw – here anticipating (of all people) Lenin – that this otherwise ineluctable tendency could be “profitably” interrupted by exporting that which moved toward surplus: capital.

That dry notion had very juicy implications and ramifications, many of them summed up in the term “imperialism.” The grip of the latter became serious from the 1860s on. Support profit rates (and lift wages in Britain) though it did, it also made unavoidable the most destructive war in history – until World War II, imperialism’s offspring.

So, you can see that J.S. Mill was willy-nilly something more than the synthesizer of classical political economy: he also came close to writing its obituary. After his death, and as the nineteenth century drew to a close and the socialist movement gained strength, it was Mill’s rather than Marx’s thought that guided socialism in England.⁴⁸ The economists after

Mill, those who constructed neoclassical economics, willingly gave up the ghost of classical political economy. Its analytical core – the labor theory of value – had become an albatross hanging round the neck of capitalism, and therefore that of economics. Off with it!

And Karl Marx

As readers of *Capital* (1867) will know, the theoretical core of Marxian economic theory was the labor theory of value. What had become awkward well before then had thus become an onus for the economists; and the theory was abandoned. That process will be examined in Chapter 2. Here we confine our discussion to “the early Marx,” and to his understanding of human nature.

The Marx who turned classical theory against itself labored away for about a quarter of a century – beginning in the 1840s – to produce what became Volume I of *Capital*.⁴⁹ In the 1840s he was very much a beginning student of capitalism – prompted to be so by Engels, who became his lifelong friend, confidant, and co-worker. But, as sometimes happens, the student overtook his teacher. From the start Marx ascertained the key relationships of economic processes, those that center on the control of the means of life. Under capitalism that control depends on private ownership of the means of production, made to function with profit as its end.

Marx’s first examination of this matter pierced through to its inescapable meaning for those *without* control over the means of production – those powerless to maintain their lives except as “alienated” persons. As we soon quote Marx on this, it is necessary to keep in mind that the words “work” and “labor” had quite different – vitally different – meanings as he used the terms (in a tradition with its beginnings in the ancient world).⁵⁰ “Work” is life-maintaining – be it farming, building, fabricating – done under the worker’s control; labor is done under the control of another (an employer, slave-owner), the class of those who decide what is done, when, how, where, and why – *and* decides as well the division of the resulting income and wealth. “Labor” characterizes the condition of the working class in capitalist society. And it is a main (though not the only) source of what Marx called “the alienation of labor.”

What constitutes the alienation of labour? First, that the work is *external* to the worker, that it is not part of his nature; and that, consequently, he does not fulfil himself in his work but denies himself, has a feeling of misery rather than well-being, does not develop freely his mental and physical energies but is physically exhausted and mentally debased. The worker, therefore, feels himself at home only during his leisure time, whereas at work he feels homeless. His work is not voluntary but imposed, *forced labour*. It is not the satisfaction of a

need, but only a *means* for satisfying other needs. Its alien character is clearly shown by the fact that as soon as there is no physical or other compulsion it is avoided at all costs. External labour, labour in which man alienates himself, is a labour of self-sacrifice, of mortification ... not his own work but work for someone else ... in work he does not belong to himself but to another person ... [The] worker feels himself to be freely active only in his animal functions – eating, drinking and procreating, or at most also in his dwelling and personal adornment – while in his human functions he is reduced to an animal.⁵¹

That was written in 1844. *The Communist Manifesto*⁵² was written in December 1847 and was first published in February 1848. It preceded as well as nourished the widespread turmoil in Europe of 1848 – among the hopes Marx and Engels pinned on the document. We quote but a few of the early sentences (taken from its 30+ pages), beginning with its first ringing words – which, accurate or inaccurate as they turned out to be in their own time, certainly raised a few hairs in 1848. They are effectively unknown to all but a few today; hence the long quote:

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 Czar, Metternich and Guizot, French Radicals and German police spies ...

The history of all hitherto existing society is the history of class struggles. Freeman and slave, patrician and plebeian, lord and serf, guildmaster and journeyman, in a word, oppressor and oppressed, stood in constant opposition to one another, carried on an uninterrupted, now hidden, now open fight, a fight that each time ended, either in a revolutionary re-constitution of society at large, or in the common ruin of the contending classes.

... [The] modern bourgeoisie is itself the product of a long course of development, of a series of revolutions in the modes of production and exchange ... The bourgeoisie has stripped of its halo every occupation hitherto honoured and looked up to with reverent awe. It has converted the physician, the lawyer, the priest, the poet, the man of science, into its paid wage-labourers. [It] has torn away from the family its sentimental veil, and has reduced the family relation to a mere money relation.

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 means of production, and has concentrated property in a few hands. The necessary consequence of this was political centralisation.

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?⁵³

After many more pages of history and analysis *The Manifesto* closes with the admonition to workers that they “have nothing to lose but their chains ... [and] have a world to win” and shouts its still unfulfilled imperative: “WORKING MEN OF ALL COUNTRIES, UNITE!” Still sounds like a very good idea – especially when amended to read “WORKING MEN, WOMEN, AND CHILDREN OF ALL COLORS AND ORIGINS,” there being still, as then, so many of the latter needing that unity and needed for that unity.

The Manifesto by itself had a lasting impact; more so, it has been estimated, than that subsequently made by *Capital* and its supporting analyses. Be that as it may, and along with much else, the political economy of *Capital* will be examined in the next chapter.

2 **Maturation: Global Capitalism and Neoclassical Economics: 1850–1914**

AND BRITISH INDUSTRY SHALL RULE THE WORLD:
FOR A WHILE

Every epoch has its hallmark. For the nineteenth century, it was industrialization – along with, of course, its supportive connections with capitalism (first and foremost), nationalism, and imperialism. The three latter “clusters” had been the emerging movers and shakers of the social process in the preceding two centuries; industry strengthened and matured in the nineteenth, dramatically so in its latter half, under the leadership of the world’s first industrial power, Great Britain.

From the 1850s on, industrialization was building new societies and tearing apart old ones; and, as the new century opened, it led to what became the most destructive war ever. It was intrinsic to the processes of *capitalist* industrialization that the elements making for and entailed by the spread and deepening of industrialization outward from Britain (to the United States, Germany, France, Italy, and Japan) would be the very elements bringing about the explosive breakdown of that same new world.

In the examination of Great Britain that follows, we shall see why. In doing that, what will also be revealed will be a major component of the “economic laws of motion of capitalism.”

Throughout its history, going back at least to medieval times, Europe has had “fairs” – fairs of all kinds, but not least in importance, trade fairs: in 1965, for example, Leipzig celebrated the 800th anniversary of its first such fair. The Great Exhibition of 1851 (“Crystal Palace”) in England – a world fair – had virtually everything on display, but it was the first such fair in history to celebrate both industrial products *and* free trade. By then, Britain was already far in the lead in both respects.

For the era under consideration in this chapter, Great Britain played an even more dominating role in the global economy than the United States did after World War II. Although the two “hegemons” achieved that position for reasons in many ways similar, the dissimilarities were even weightier. A summary listing of the bases for Britain’s ascendancy in itself suggests some of both:

the geographical advantages of the British isles; the stable yet evolutionary and adaptable nature of British political institutions in contrast with those of the Continent; the accumulation of surplus capital and the long and varied experience of economic organizations in its utilization; the superior competitive power accruing from the industrial revolution; and the comparative freedom of the British Isles from the disruptive effects of the wars and revolutions characteristic of Continental states.¹

When we examine the post-World War II decades, we will see that among the several and important differences in the origins of the strength of the two hegemonies, one that stands out markedly is that concerning wars. Although both nations were relatively unharmed by, and even benefited from, intermittent wars as they gained strength up to 1900, there was a decisive difference in the twentieth century. Great Britain was very much weakened by the first of the two world wars and flattened by the second. Much the opposite was true for the United States. The U.S. role as a major supplier to the Allied Powers before and during its military participation staved off what would have been a serious recession and became instead a basis for strengthening the economy during and, even more, after the first war. It is unquestionably true that World War II was the means by which the U.S. escaped from the depression and, with the destruction of Europe and Japan, that gave it an unassailable position of strength.²

Politics, the accumulation of capital, and the industrial revolution

Given the importance of Britain's relatively flexible sociopolitical institutions during the industrial revolution, the phrase that commands most attention in the quotation above is "accumulation of surplus capital." That became apparent in the 1830s as the first (textile) base of British industrialization was moving to its limits. An exploration of that "superabundance" of capital – aptly described as "vast"³ – will take us directly to the remarkable expansion of Britain's trade and empire and to *their* explanations.

The surges of trade and empire were mutually reinforcing; and both accelerated rapidly as the seventeenth century ended and the eighteenth began. "Trade" refers to foreign trade, of course; and such trade required ships and shipping. In the preceding chapter we saw why Britain, rather than France, became the first industrial capitalist society. Even more curious is why it was *not* the Dutch who did so.

Throughout the seventeenth century, the Dutch ruled over both the production and the use of ships, which in turn served as the basis for their primacy in trade with the societies bordering the North Sea and,

increasingly over time, with southern Africa, the West and East Indies, and Japan.⁴

The English and Dutch had the largest fleets of combined merchant and naval vessels, but the Dutch outnumbered the English by a good four to one, so assuring their control over what became the most fruitful of trading colonies, the Dutch East Indies. Conscious efforts to alter that balance began in England in 1651, with the so-called "Navigation Acts." All the emerging nations in that period were "mercantilist," but the mercantilism of England was the most successful, and those "Acts" stood at the center of that success.

As the eighteenth century unrolled, British colonies were established in all quarters of the globe. Before the end of the next century, Britain possessed history's most extensive, and, up to then, most profitable empire: "the sun never set on the Union Jack." That development was made possible by and continually stimulated Britain's production and use of sea vessels, much aided and abetted by the trading Acts.

Vital to the numerous provisions of the latter was the requirement concerning colonies. All exports *from* British colonies had to be carried in ships owned, built, and manned by Englishmen; many colonial "enumerated" commodities (tobacco, cotton, rice, sugar, and products used for ship construction and repair) could be exported only *to* England; with few exceptions, all imports *into* the colonies had to be shipped from or via England; most imports *not* from their colonies had to arrive in England in English ships; all coastwise shipping had to be in English boats. And so it went on.⁵

It is not difficult to imagine what all that (and related mercantilist provisions, such as the subsidization of shipbuilding and arms production) meant in terms of stimulating British trade and industry, colonization, and what Marx termed "primitive" (that is, pre-industrial) capital accumulation – especially when one puts back in the picture the other items noted in the earlier quotation.⁶

It has already been noted that in Adam Smith's time France was institutionally ill-equipped to move toward becoming a capitalist society.⁷ Even less so, except for the Dutch, were the other European nations ready to "develop." But how can we explain that it was not Holland – the richest, most successful trading and *industrial* society of the seventeenth century – but Britain that was the birthplace of the industrial revolution?

What the British were to become by the end of the nineteenth century – by far the world's principal creditor – was the role occupied in the late eighteenth century by the Dutch, whose wealth by then was accruing more from finance than from trade and industry.⁸ The explanation lies in what made for strength in the pre-industrial as contrasted with the industrial epoch.

Among those differences for industrialization, sheer *size* counted heavily; and both the population and geographic area of the Netherlands were quite small. Its lands were almost devoid of the resources relevant to industrial or any other production. Their dikes were built not only to prevent flooding, but to create cultivable land. Its estimated population of 1.1 million in 1700 was a fraction of the United Kingdom's 8.6 million; by 1846, the Dutch still had but 2.5 million, against Britain's more than 27 million. And, although Britain is tiny and its resources accordingly slight when set against those of the United States, its coal and iron, and wool and food crops, were just right for the industrial revolution that began in the mid-eighteenth century.

A century later, Britain had completed *the* industrial revolution. What lay ahead was the second step of that process – what came to be called “the second industrial revolution.” Underlying that major development was how Britain had put its “superabundant” capital to use, first and foremost in the direct and indirect effects of its railways.

It is generally agreed that the networks of canals and roads⁹ in place in Britain by 1830 and for at least another quarter-century served its transportation needs well. Nonetheless, there were two “bursts” of railway development in that same quarter-century. That such development, as expensive as it was novel, should occur is explicable mostly – perhaps only – by the abundance of capital then finding no sufficiently profitable outlet. The early investors could have had no idea of just how profitable that railway investment would prove to be, both directly and indirectly. The impact of the automobile on the U.S. economy in the twentieth century is the only comparable development.

THE SECOND INDUSTRIAL REVOLUTION

By 1840 the cotton mills of England were technologically backward, but “the English railways had reached a standard of performance not seriously improved upon until the abandonment of steam in the mid-twentieth century” (Hobsbawm, 89). Between 1850 and 1900 it became increasingly clear that the provision of more efficient transportation was by no means the most important contribution of the railroad.

The production and use of railroad technology served as what economists came to term “a growing point,” not only, nor even principally, for the economy of Great Britain. It was the foundation for the “second industrial revolution.” This in turn served as the basis for an unprecedented set of developments, only the most obvious of which were the direct *consequences* of the use of railroads and steamships: the penetration of all continents and their tying together by relatively inexpensive transportation and (as noted earlier), using the same and related technologies and discoveries (for example, oil), providing the

world's economies with *cheap* metals and machinery, *cheap* fuels and lubricants, *cheap* power, and not least important for rising industry and its labor force, *cheap* foodstuffs. All these interacted to provide a powerful push for always deeper, always more ubiquitous industrialization.

Industrialization at the gallop

As the nineteenth century ended and the twentieth began, there emerged what may be seen as a *third* industrial revolution, centering on what Veblen called "the technology of physics and chemistry." This allowed steam power to be supplemented by cheaper and more flexible electric power and ultimately whole new industries making electrical products. Developments in chemistry led first to the heavy chemicals industry and then to innumerable products dependent upon chemical synthesis. Both developments had their first results as capital goods; before long the consequences had spread throughout consumer durable goods and services (telephones, and so on) to be followed in our time by a *fourth* industrial revolution, transforming communications, transportation, everything.

Thus it was that between the 1860s and World War I the mass production of both capital and consumer goods, the defining characteristics of the modern era, became both possible and necessary. But, as will be seen, that such mass consumption became necessary and possible did not insure that it would become real – except for the United States. Its great size, population, and high incomes (even though its also high inequality limited purchasing power) allowed the first steps. That did not help Europe, though. What lay ahead was an ever-deepening crisis and war.

All that from the railroad? The answer is yes, in the same sense that a towering sequoia emerges from its roots. This is not the place to plunge into the relevant details. The point may be made by looking only at the locomotive and the steamship, which came into use in the proximate decades.

Those mobile steam engines were of course fueled by coal, and either moved on or in what required much in the way of steel (plus rolling stock, modern docks, and so on). The steam engine itself was a fundamental stimulus to the proliferation of machine tools and other machinery throughout the nineteenth century, as well as, of course, to the intensification and modernization of mining for massive quantities of coal and iron. But a dangerous fuse had been lit.

The Pandora's box of imperialism

The new land and ocean transportation opened up vast new needs and opportunities. In the process it also transformed colonialism into imperialism, whose differences were determined essentially by the technologies of the two epochs. The most critical of those differences have been aptly

summarized by Maurice Dobb, in the long quotation that follows:

Imperialism required, as the colonial system of earlier centuries did not, a large measure of political control over the *internal* relations and structure of the colonial economy. This it requires, not merely to “protect property” and to ensure that the profit of the investment is not offset by political risks, but actually to create the essential conditions for the profitable investment of capital.

Among these conditions is the existence of a proletariat sufficient to provide a plentiful and cheap labour-supply; and where this does not exist, suitable modifications of pre-existent social forms will need to be enforced (of which the reduction of tribal land-reserves and the introduction of differential taxation on the natives living in the tribal reserve in East and South Africa are examples).

Thus the political logic of imperialism is to graduate from “economic penetration” to “spheres of influence” to protectorates or indirect control, and from protectorates *via* military occupation to annexation.¹⁰

That is an apt summation of what “imperialism *required*.” It is also important to understand why imperialism *was* “required” by the nations that were, or sought to become, major powers.¹¹ To be a major power in the late nineteenth century meant to be an industrial power. Given the resource inadequacies of all the European nations and Japan, that in turn entailed the acquisition of assured sources of raw materials. Less urgently, but urgent nonetheless, it also meant privileged access to markets provided by empire and – key to the hopes and fears of all those powers in a world in which war was a constant¹² – strategic locations for positioning military forces and refueling warships. We return for a fuller consideration of imperialism in a later section of this chapter.

In general, thus was laid the basis for always increasing conflict and competition between the Great Powers, and an explosive ending to the fabled “century of peace.” Before examining the specific processes leading to World War I, it is appropriate to examine the ways in which what became the other principal industrial nations – the United States, Germany, and Japan – achieved their status.¹³ They will be examined separately and in that order, then considered together for a discussion of the outbreak of war. Not only the diversity of the paths taken by those nations will be noted but, as well, how very different each path was from that taken by the mother of industrial capitalism, Great Britain.¹⁴

Because Britain had been the first nation to industrialize it was able to reap the benefits with great ease – “in a fit of absentmindedness,” it has been said – by comparison with its Continental rivals. Those benefits could be counted not only in Britain’s cheap and easy access to foodstuffs

and industrial raw materials imported from its enormous empire, but growing markets for its own industrial exports (including manufactured consumer and capital goods and, always more importantly, coal).

Less obviously, but not less importantly, in the second half of the century Britain had supplanted the Dutch as the world's major creditor, and to a stunning degree. By 1913, Britain had standing investments exceeding £4 billion in the rest of the world.¹⁵ Although Britain was importing more than half of its foodstuffs and seven-eighths of its raw material needs (excluding coal), they were easily paid for by the returns from its foreign investments. As will be seen in Part II, the United States now has a substantial, always rising and already spectacular, import surplus, not as a creditor but as a *debtor* nation, whose obligations to the rest of the world have increased sharply in the past 20 years.¹⁶

Now it is time to turn to the role played by the other major powers in this development, beginning with the United States and Germany (thence to Japan), who were Britain's main debtors in the nineteenth century and had become its main competitors by the twentieth – and economically powerful. By 1913, Germany was producing 50 per cent more steel than Britain, the United States four times as much (Mathias, 233).

THE UNITED STATES

Of all the nations now to be examined, the economics and the ideology of the United States have followed more closely those of Great Britain than have any other nation. Indeed, the rhetoric of “free market capitalism” in the United States has gone beyond that of Britain more often than not; also more often than not, the rhetoric has been confounded by the realities of U.S. economic development. When we examine the history of the Continental nations and of Japan, we will see that not even the rhetoric applied – until, perhaps, the past decade or so.

Had the United States adhered strictly to the principles of “*laissez-faire* capitalism” in either half of the nineteenth century (as Britain did, from the 1840s on), its socioeconomic development would have been drastically different. This is not to say that the United States would not then have industrialized successfully. So abundant were the blessings of time and space and circumstance, it may be said unequivocally that there was no set of *conceivable* economic policies that could have held back U.S. industrial capitalism. Put differently, when ways and means acting as obstacles to capitalist development in the U.S. did exist, they were brushed aside – by any means necessary.

Slavery is an important case in point. The slave system of the South and its exports (cotton, rice, sugar, and tobacco) were crucial to the larger

economic development of the entire society throughout the second century of its colonial period and the first half-century of its nationhood. What had changed by the mid-nineteenth century was not the morality of slavery, but (as seen by northern industry) the negative meanings of the power over national economic policy which the slave-holders of the South exerted¹⁷ – exporting agricultural products (mostly) to Great Britain, while importing manufactures. And all within a free market, including the freedom to purchase and sell slaves.

Not only were slave-holders profiting from the system; at least as much were the slave *traders* of the Northeast, centered largely in New England. The British had outlawed the slave trade in 1816; all the better for the slave traders of the new American nation. Veblen's comment on the ethical niceties involved deserves a lengthy quotation:

The slave-trade was never a "nice" occupation or an altogether unexceptionable investment – "balanced on the edge of the permissible." But even though it may have been distasteful to one and another of its New-England men of affairs, and though there always was a suspicion of moral obliquity attached to the slave-trade, yet it had the fortune to be drawn into the service of the greater good. In conjunction with its running-mate, the rum-trade, it laid the foundations of some very reputable fortunes at that focus of commercial enterprise that presently became the center of American culture, and so gave rise to some of the country's Best People. At least so they say. Perhaps also it was, in some part, in this early pursuit of gain in this moral penumbra that American business enterprise learned how not to let its right hand know what its left hand is doing; and there is always something to be done that is best done with the left hand.¹⁸

With respect to both its foreign trade and domestic industry, the United States began with a struggle between warring Jeffersonian (Smithian) and "infant industries" against the otherwise overpowering competition of Great Britain – arguments at which the United States sniffs today when they are raised by "emerging market economies." The South was Jeffersonian from the beginning; the Northeast took the Hamiltonian position.¹⁹ The Civil War is usually seen as having abolition of slavery as its prime (or only) focus, just as World War II is viewed as having been principally a war against fascism. But without the issue of who was to control the economic policies of the United States energizing the most powerful business interests of the North, it may be wondered when, if ever, there would have been a war whose basis as well as whose effect was abolition.²⁰

Put more broadly, during the Civil War and for decades after, the

United States pursued what can be seen as a national economic policy supporting industrialization: 1) subsidization of the entire railroad network (at least two-thirds of whose costs were paid directly or indirectly by the federal government), 2) the great (and ongoing) give-away of immense amounts of natural resources (timber, various mineral deposits, cultivable lands, and so on), 3) a protectionist tariff policy and, not least in importance, 4) a government that placed property rights first and treated workers' rights as effectively nonexistent. In short, a capitalist paradise.

The importance of being lucky

All that may be seen as benefits for industry (and business in general) that were (as the saying goes) "man-made." Of equal or greater importance for facilitating the ultimate triumph of the United States was provided by a geography that gave it the most abundant resource base of all, while surrounding it with vast oceans insulating it from foreign wars. And then there was the timing of the U.S.'s entrance into history as a national economy, when imported capital (funds and equipment) and manufactures were increasingly abundant and cheap, and U.S. exports always more desired (not least those manna from heaven: gold and silver and oil).

To that add something less obvious, but no less vital for the relatively "easy" development of capitalism in the United States. By comparison with all others, the U.S. was devoid of a history of formalized class relationships and of the connected institutions that, elsewhere, had been protective of both land and labor. Although these had existed in colonial America to some extent, they had become a memory by the time Jefferson and Hamilton were quarreling over economic policy.

Implicit in the foregoing, but of critical importance in establishing both its absolute and relative strengths, is that concerned with the struggle for empire. That struggle, which occupied the energies of all the European powers (and Japan) from the 1870s until the outbreak of World War I, was unavoidable for all of them, for within their borders none had the resources essential for industrialization or – just as vital – for feeding the military strength whose need became increasingly obvious with each year. In those respects, as in so many others, the United States stood in sharp contrast. It was the one nation sitting on (and pushing aside anyone in the way to) everything relevant to economic development, with plenty left over to export.

Nonetheless, in the late 1890s, the United States also embarked on the imperialist path²¹ – in the Caribbean and Central America, in the Pacific. But it was not from need – not, at least, as that word might be defined for the other powers. Rather, it was from a set of processes prompted by opportunity – or, less politely, greed and rapacity.²²

The great physical size and wealth of natural resources which made

overseas imperialism less essential for the United States meant something else even more important. They attracted and supported what also became the largest population among the new industrial powers, and allowed it to become the unchallenged center for the mass production of both capital and consumer goods, with parallel developments in agriculture.²³

The key elements of mass production are the techniques yielding standardized, "interchangeable" products for articles consisting of many parts. A moment's reflection will show that such standardization implies a mass market for such products. The most important work along these lines initially took place in the United States.

It was accomplished by Eli Whitney and Simeon North, for producing firearms used in the war of 1812. The "mass market," of course, was the U.S. government. Such techniques slowly but surely came to be used (first and foremost in Connecticut, where they had begun) in a whole variety of industries. By the end of the Civil War they had become the norm in the United States – in agricultural implements, in the machinery industries, in metallurgy, and so on.²⁴

Big, bigger, biggest

The railroad sat at the center of economic development (ranging between 15 and 25 percent of real investment in the last half of the century). All the machinery, rolling stock, and steel of that development – yielding 200,000 miles of track by 1900 – was a boon to the many contributing industries. But it also allowed and required a spreading-out of an always growing population – and of urbanization. The real investment requirements of the numerous cities – housing, streets, utilities, shops, plants – were enormous.

From all of that and much else unmentioned the United States became the first economy of mass production *par excellence* – just as Britain had become the first industrial nation. As we shall see in the next section, Germany, both despite and because of its severely limited resource base, had, by the end of the century, become the technologically most advanced nation in the world.

By 1900, although Britain was rich and growing richer, it was clear that the United States and Germany were becoming, or had already become, the strongest industrial nations in the world. The United States, by virtue of its size, resources, and population (the latter twice that of Germany), had an aggregate strength far greater than Germany, but Germany's "technology of physics and chemistry" was more advanced.²⁵ Both nations had now overtaken Britain.

That achievement was an instance of a "law of development" that Veblen had made much of; namely, "the penalty of taking the lead, and the advantages of borrowing." Thus, he saw England as having borrowed

the handicraft technology from the Continent after 1600, and gone on to higher levels than those who had "taken the lead." But both Germany and the United States had done the same with industrial technology, taking it to new heights both qualitatively and quantitatively, while Britain relaxed with its wealth and old-fashioned economic ways and means.²⁶

Two other major accompaniments of industrial capitalist development remain to be considered: the tendency toward giant firms and monopoly, and the response of workers to their exploitation, which led to unionization and socialist movements. Like imperialism, the latter will be taken up toward the end of this chapter, where both phenomena will be analyzed for all the major powers. Here we turn to the consolidation of business in the United States, which took hold late in the nineteenth century. Subsequently it will be seen that the other industrialized countries followed similar paths in the same direction, though with important variations.

In our discussion of Great Britain we made no mention of a movement toward giant firms, consolidation, monopoly, or the like. That is not because nothing of the sort occurred, but that what did occur was slower and on a smaller scale than elsewhere. That in turn, like its technological backwardness by the time of (say) 1910, can be explained by Britain having "taken the lead" in industrialization. Powerful, wealthy, and industrialized though Britain was by 1900, in comparison with the United States and Germany, most especially, it was still the home of relatively "small business."

That the United States was the first home of mass production ineluctably led to its becoming the first home of giant firms. The processes of combination took hold first in the railroads; in manufacturing it was prompted by the spread of mass production²⁷ – first and foremost in metallurgy. What Microsoft has come to mean for the computer industry is something of a replay of what happened in both railroads and the steel industry. This includes the major pressures toward monopolization which were much strengthened by the spread of excess productive capacities and the reality or threat of price competition – the bane of industry, ideology notwithstanding.

That began to be a problem in the 1870s. For the next two decades or so, as industry spread throughout an emerging economy that was growing too rapidly to be controlled, productive capacities increased and prices fell, leading to what businesses term "destructive competition." This was intense in the steel industry. The leader in its "combinations" was Andrew Carnegie. By 1900, Carnegie Steel had combined 750 steel companies into one; by 1901 it had combined the other eleven largest firms into the United States Steel Corporation (USS), the first \$1 billion company, and the largest steel company in the world.

Those processes were only the most dramatic of a larger movement. In the years before 1905, over 5,000 firms in diverse industries (copper, oil, steel, whisky, amongst others) had merged into 318: taken together, they constituted the powerful heart of the economy, matched by an equivalent concentration in the financial world. The latter, led by J.P. Morgan, added to its profits (as still today) by organizing the mergers for a substantial fee (and, often, a share of the equity).²⁸

Thus began the era stretching to the present in which the term "competition," whose theoretical function is to increase efficiency and lower prices while keeping economic power diffuse, was increasingly replaced by "rivalry," whose monopolistic pricing, advertising, and trivial product changes take the economy (and society) in the opposite direction in all three respects. Not quite what Adam Smith had in mind. Veblen saw the truly competitive years as having begun their exit in the 1870s; by the early twentieth century, it was something else:

Competition as it runs under the rule of this decayed competitive system is chiefly the competition between the business concerns that control production, on the one side, and the consuming public on the other side; the chief expedients in this business-like competition being salesmanship and sabotage. Salesmanship in this connection means little else than prevarication, and sabotage means a business-like curtailment of output.²⁹

The decades in which this first merger movement took place in the United States produced what was then a novel business form and structure: the giant corporation, functioning side by side with a few other giants in the same industry. The result was an industrial structure economists came to call "oligopoly": an industry dominated by a few large companies, few enough to make (illegal) agreements to maintain (or raise) prices in unison, and/or to restrict output in order to maintain (or raise) prices. This is different in form from "monopoly" – that is, one firm only in an industry – but its consequences have been even more undesirable in practice. For even though the appearance of competition is maintained through advertising and other forms of rivalry,³⁰ whereas honest price and cost competition *reduces* prices to the consumer for a given quality, "non-price competition" raises costs (through advertising and superficial product changes and packaging). These are passed on to the buyer, and that involves a considerable and always rising amount of waste, much of it destructive (to be discussed in Part II).

The organizational response to industrialization on the Continent throughout the nineteenth century, and up to World War I, was both similar and different. Small firms tended to persist alongside larger – but

not giant – firms, but they controlled their markets against competition by organizing into what the Germans called “cartels.” The member firms retained their individuality as owners, but had to follow a common price and output policy, and shared the profits.³¹

In the course of the nineteenth century the world had been transformed, more rapidly and in more ways than could have been imagined in 1800 – if in wildly varying ways and degrees, and with cruelly diverse consequences among and between societies and classes. It may be asserted that the drama thus suggested was more electrifying for the United States than any other. As has been noted, the U.S. was simultaneously the best served by nature, and the least restrained by history, for better or worse. Some of both “the better and the worse” are captured by Du Boff, when he notes that

The accumulation process ... had moved the economy out of a long era of increases in living standards that were tiny and reckoned in centuries (when they were discernible at all) to a new age of productivity-generated advances in mass purchasing power. No sooner was the brave new age begun, however, than it was being undermined by science-based gains in efficiency that permitted huge expansions in productive capacity that tended to overshoot actual levels of private demand. The main problem lay in a system that encouraged efficiency gains but discouraged a distribution of income that could assure commensurate gains in worker purchasing power. (Du Boff, 42)

Though this reference is to the close of the preceding century, it could equally well have been written to describe the state of affairs as the twenty-first century began.

Now we turn our attention to Germany, the heavyweight of European economic, military, and social development. After that, we examine Japan, which consciously walked in Germany's footsteps, and in more ways than one.

GERMANY

When the nineteenth century began, there were Germans, a German language and culture, and there was German history; but there was neither a German economy nor a German nation. Among the provisions of the Treaty of Westphalia (1648) was one which, in order to hamstring Germany, rendered it into a patchwork of over 300 principalities. The Treaty of Vienna (1815) reversed that, reducing the sprawling group to under 40. Most powerful among them were the Prussians east of the Elbe. Already strong before 1815, their strength was much enhanced by the Treaty. It allowed the agricultural Prussia of the east to annex the more highly developed Rhenish lands to the west. At the stroke of a pen, the

new Prussia thus became the undisputed major power both economically and militarily of the still fragmented German lands. It also became the driving force that transformed the rhetorical "Germany" into a true nation with a modern economy.

Prussian political economy

The first step was taken in 1818, when Prussia introduced the Maassen Tariff, the purpose of which was to eliminate barriers between its eastern and western territories. Then in 1834 it initiated the *Zollverein*, a customs union eliminating tariff barriers among and between most of the remaining and expanded principalities, while creating barriers against the rest of the world.³² By 1866–67 all of what at the same time became Germany belonged to the union; and, with the triumphant conclusion of the Franco-Prussian war, Germany became Imperial Germany in 1871.

The Prussian tariff initiatives were a vital first step toward modernization. But a major problem was the geographic separation of East and West Prussia. However, the *Zollverein*, in enlarging the German market for all member states, also made the railroad more realistic and more compelling. From their virtually simultaneous beginning, the Prussians (guided by the coherent program of Friedrich List) saw the tariff and the railroad as the twins of the industrialization process: the *Zollverein* in 1834, the first German railroad in 1835; "the railroad era" of the 1840s.³³

Accompanying the growth of the railroad in Germany (as elsewhere) was the classic pattern of growth and interaction of related industries: in mining, metallurgy, machinery, and the transportation industries themselves, with secondary stimulating effects in light industry, trade, and finance. Thus was "Germany" thrust toward national industrialization, with Prussia leading the way. At first glance, this would seem to have been an unlikely development. The ruling power in Prussia was a feudal nobility of militaristic landlords (the *Junkers*). Anti-industrial, anti-capitalist, not at all "pan-German," they were most comfortable when handling rye or drilling soldiers. But despite their particularistic outlook, it was nevertheless this anachronistic coterie of feudalistic farmers³⁴ that willy-nilly marched the crooked path that led them from their unpromising sandy soils to where they became the makers and rulers of a united, an industrial, and an imperious Germany.

By the end of the nineteenth century, the Prussians had come to preside over the strongest nation and most powerful economy on the Continent. The land that had produced Bach and Beethoven, Schiller and Goethe, Lassalle and Marx, came to be ruled by the spirit of Fichte, List, von Bismarck and von Moltke, found its symbols in a fierce eagle and a spiked helmet, controlled its economy through protective tariffs and cartels, and sang of blood and iron and soil.

German science and technology

This was a new Germany, more worrisome than ever to those both within and outside its borders; and understandably so, when one absorbs Brady's characterization of the deepening predicament of Germany as it "grew the economic limbs of a giant only to be confined in space fit for a pigmy [;] ... bottled up, a highly industrialized Germany would explode." ³⁵

German industrial development was a striking case of making the most of very little, a process also generously embellished with serendipity. The "little" had to do with their resources; the "serendipity" connected both with their creative response to their deficiencies and, as well, with the fact that their railroad system, hastened and designed with military defense and aggression in mind, was the prime mover of the most compressed industrialization process ever.³⁶ But first, let us take a closer look at Germany's relatively meager natural resources.

Although German soils and forests and potash are abundant, other natural resources (non-ferrous metals, wool, cotton, petroleum, and rubber) are non-existent or problematic. Yet, as Brady put it, "no other major industrial country has developed a large-scale heavy industry with the raw materials under its own political and economic control forming so limited and narrow a base." ³⁷

In mid-century, petroleum and rubber were not yet vital;³⁸ but wool and cotton were important, and coal and iron were crucial. Coal was in ample supply, but its quality was poor, largely lignite ("brown coal"), rather than the bituminous and anthracite coals essential for modern industry. Its iron ore supply, in contrast, was of good enough quality (in Upper Silesia) but inadequate quantity; and was located perilously close to its borders. After the conclusion of the Franco-Prussian War, however, Germany controlled the best iron ore deposits in Europe, those of Lorraine, which it had annexed from France. That major trophy of their victory over France brought with it also Alsace and its well-developed textile industry.

Valuable though Alsace-Lorraine was for Germany, its economic development both before and after 1870 allows one to hazard that although it doubtless would have been slowed without the war, that would not have been critical. The key "resource" for German economic development may be seen as their thoroughgoing application of science to technology and production, along with their resource-saving organizational and planning patterns³⁹ – the levels and the combination of which set Germany apart from all others. As we shall see, both were dramatically evidenced directly and indirectly in the production and organization of the coal industry.

The ultimately advanced state of German science had its seeds in Germany's sociopolitical "backwardness"; its organizationally concentrated

political economy resulted from the all-important Prussian direction, able and necessary to be exercised because of social atavism and resource weaknesses.⁴⁰

The sociopolitical backwardness of Germany compared to the other leading European nations of the early nineteenth century was a consequence of its fragmentation into hundreds of mini-nations, the end of which was one of the aims of the *Zollverein*. But that very separation and its innumerable bureaucratic entities served as the primary explanation for Germany's people having been the best-educated in Europe. Each principality had its own government and (usually) its own tariffs and thus the need for a highly disproportionate percentage of its people who could read and write and count, by comparison with other "nations."

Also, anachronistically protected by tariffs in these numerous principalities were craft workers (in metal and textile and paper products, for example) whose skills were as much prized inside "Germany" as their products were outside (as some of them still are). As industrialization took hold, their skills were easily transformed for application in modern industry at the highest levels of the working force, up to and including engineering.

The nation with two faces

The confirmation of this cultural and economic uniqueness – in addition to its meanings for Germany's spectacular industrialization – was evidenced in the 1920s. By 1928, say, Germany was *the* scientific and intellectual Mecca, to which scientists, artists, writers, film-makers, musicians from across the world flocked for inspiration, education, or joy. There has been no such place like it since. Nor anything like the Hell that followed it.

To capture the distinctive character of German industrial development of the late nineteenth and early twentieth centuries, note the portions of the following characterization by Brady I have emphasized, and their sharp contrasts with British processes:

The bulk of the [German] industries ... were not only devoted to *mass production*, but they also turned out *producers'* goods predominately ... [and] *even* the industries producing *consumers'* goods were in large part *tied directly to the big coal, steel, chemical, machine and engineering firms*, either through vertical consolidations, through dependence upon a common source of *raw materials largely under the control of the industrial giants*, or – as with *pharmaceuticals, fertilizers, synthetic dyes and fibers* – because of dependence upon one or more of the leading *by-products* of the new complex operations which characterized the heavy industries.⁴¹

This is to say that Germany's development centered on the "heavy industries." In an important sense those industries produced for *industrialization* rather than "for the market," least of all for the consumer goods market.⁴² This is another way of repeating what was said differently somewhat earlier: German industrial development was "guided," as neither British nor U.S. development was – by the Prussians and their willing allies in big business and finance.

Nor was there ever much in the way of innocence concerning what the ultimate uses of all this productive capacity would be. No later than 1910, German business and political leaders were acutely conscious of two unsettling facts: their heavy industries were easily capable of satisfying the needs of all of Europe for such production; and the capital goods markets of both Europe and the rest of the world were effectively closed to them. Other nations were producing and protecting their own capital goods industries or, in the case of colonies, forbidden to buy except from the home country. The danger inherent to those realities was known to all concerned; namely, that heavy industry is the indispensable economic weapon for war.

The producers' goods industries of Germany included metallurgy, machinery, and shipbuilding, of course; and it was Germany, beginning in the 1890s, that led the world in building what became modern navies, prompting Britain to rethink and rebuild its own navy⁴³ – an early "cold war" soon to become hot. The following quotation was written in 1897:

A million petty disputes build up the greatest cause of war the world has ever seen. If Germany were extinguished tomorrow, the day after tomorrow there is not an Englishman in the world who would not be the richer. Nations have fought for years over a city or a right of succession; must they not fight for two hundred and fifty million pounds of yearly commerce?⁴⁴

In addition, it was German science that laid the foundations for modern chemical industries and – most importantly in this context – their vast array of synthetic products. Given the probabilities for war, the most relevant of the innovative processes centered upon coal tar derivatives, the basis for the modern explosives industry, with I.G. Farbenindustrie its major beneficiary for both peaceful and war products.

This was but an instance, albeit a very important one, of the general development of *ersatz* ("substitute") products by German industry, of which the contemporary world's array of plastics, synthetic fabrics, dyes, pharmaceuticals, and the like, are direct descendants.⁴⁵ But the coal industry had as one of its products coke, which is essential in the production of steel. And steel is essential to the production of, for

example, steel rails and steel machinery (and the machinery for making steel), and so on.

It was this set of interdependent connections that led Germany to develop not just concentrated and overlapping business formations (cartels within industries, close ties between finance and industry) as a means of control, but something else less well recognized also took hold in Germany (and only there, in this period). As the new heavy industries expanded:

they showed a tendency to draw together – to *agglutinate*, to employ a favorite German expression – in a number of ways. They were tied together by the raw materials on which they were based and partly through the swift growth of vertically integrated plants, partly by the rapid spread of the chemical industry ... Common basic raw materials, and what might be called “successive-stages” materials – in which the finished good or the by-products of one chemical process became the raw material for succeeding chemical processes – encouraged direct, physical interlinking of plants and of the firms owning them ... There gradually emerged, from the eighties on, definite patterns of regionally interlaced, nuclear industrial groupings. (Brady, 1943a, 114)

As Brady goes on to show, the comprehensive outlook rationalizing the close functional connections between science, engineering, production, location, and organizational concentration was easily translated into an outlook embracing all that was relevant to Germany's economic *and* its political/military processes, needs, and possibilities. In the closing decades of the nineteenth century, Germany was already what it has been ever since, if in quite diverse ways: a nation impatient with barriers of any kind – economic, geographic, political, or social; and one that has found it easy to move (or to seek to move) through those barriers as a dominating power – economically, politically and, when necessary, militarily.

It is highly likely that the Germany of today is no longer that Germany; its crushing defeat in history's two most horrific wars quite probably also effectively crushed that set of inclinations. Surely most Germans join the rest of us in hoping that is so.

Which prompts the digression that now follows.

A DIGRESSION ON THE CASTING OF STONES

With those comments on Germany and similar ones soon to follow concerning Japan, it seems appropriate to take heed of the biblical injunction “Judge not, that ye not be judged” and to remark at least briefly on its application to the dirty bottoms of modern history.

It will be seen that Japan's industrialization process mimicked Germany's in many ways; and that it also led inexorably to repeated wars, fascism, and related horrors. But neither Germany nor Japan developed in a vacuum. As noted earlier and as will be examined more closely later (and with only our epoch in mind), their economies changed and industrialized in a world of "dog eat dog," a world rife with conflict and competition – class against class, business against business, nation against nation – in which not to win was to lose.

It is tempting, but inaccurate, to say "'twas ever thus."

The pressures for nations and large numbers of their people to resort to force and violence and other atrocities within and beyond their borders has varied and has never been absent in history. But there has never been anything like the acceleration of their types and magnitudes of the past few centuries.

From the sixteenth century on, such pressures intensified in ways previously unrivaled, whether in degree or kind. Attila the Hun was an amateur in comparison with his modern counterparts – not because Attila was of relatively good character, but because his world had not created and could not give rise to the needs or possibilities that became common in recent centuries.

The source of the latter is to be found in the functioning of the "analytical quartet" that ties this book together, the dynamics of capitalism, industrialism, nationalism, and imperialism. Each one of these sets of institutions and processes alone contains within it stimuli that transform the normal search for wealth and power into voraciousness; their *interaction*, whatever their positive consequences might have been, assured a precipitous descent into social disasters – accentuated horribly by the powers of modern technology.

That descent has been shared throughout two centuries or so of the mutual existence of the "four clusters" – not only to or by the obvious villains, Germany and Japan; to and by all nations, in one degree or another, in one way another, at one time or another, for one set of reasons or another.

Germany and Japan with Italy in the twentieth century became the Big Three of fascism. Is it not also relevant that in modern history's dogfights they were also the Big Three of the "have-not nations"? The "haves" – Britain, France, and the United States – do not see themselves as also having been "snarling dogs." But they were. That point receives considerable support when it is applied to the United States – "the land of the free and the home of the brave" – the modern society in which the blessings of nature and location reduced "needs" to a very low level relative to other nations, and for which positive possibilities always lay within easy reach, able to be grasped within the framework of human decency.

Yet – and looking only at this – U.S. history was stained by its addiction to slavery for more than two centuries. Nor has the U.S. by any reasonable standard eradicated the racism that grew alongside slavery, nor all that slavery and racism have meant to millions for centuries. Moreover, although it has received much less attention, the U.S. has been just as much stained by its variation on imperial savagery, stained by the means with which it created its “internal empire” at the cost to Native Americans of their culture, their livelihood, their dignity.

Looking only at those two elements of U.S. history we are speaking of millions of deaths and the ruination of countless survivors and descendants over the period stretching from the colonial period to the present.⁴⁶ But, and among other disturbing questions, in how many ways has that history silently poisoned the entire social process? And how many Americans have ever had such matters even discussed in school?

No reference will be made to other, large or small, nations – France, Belgium, China, Italy, Russia, Holland – none of which has clean hands. None of us has the right to cast the first stone. This does not mean that all crimes against humanity are equal; but they are all crimes. It is to say that the crimes of our epoch are not to be explained principally by “national character.” The latter has to be explained, and can be – in large part – by the intertwined and cruel histories of that epoch.

Such arguments can be and have been expressed better and more fully by others.⁴⁷ For us, here, enough.

We turn now to Japan, whose industrialization stands as much in contrast with Britain’s and the United States’ as does Germany, perhaps even more, generated by similar as well as different needs.

JAPAN⁴⁸

Among the many things common to the economic development of Imperial Japan and Imperial Germany, one was a fervent nationalism, whose origins, however, were greatly dissimilar. Germany’s was much nourished by its having been effectively dismembered in the seventeenth century. By contrast, of all modern nations, Japan was until the mid-nineteenth century uniquely and almost entirely isolated – culturally, politically, economically – and made so by its conscious adoption of a “seclusion policy” in the seventeenth century.

Japan was ruled by a classically feudal regime, the Tokugawa shogunate (military government). Its isolation was prompted in large part by the European overseas explorations of the sixteenth century; its end was the consequence of the pressures against it of western imperialism in the nineteenth century.

As the sixteenth century ended and the seventeenth began, the Japanese had expelled the first European presence (the Portuguese) and

had ruled out the presence of any others – except (with severe limits) the Dutch, who were given trading privileges at Japan’s southernmost port, Nagasaki.

In the ensuing centuries Japan’s isolation produced a society which, compared with all others in that long period, remained unchanged. But from the very beginnings of the nineteenth century, Japan’s hermitage began to be assailed. As Peter Duus puts it:

The exclusion policy worked as well as it did for nearly two centuries because the Westerners had as little interest in getting into Japan as the Japanese had in letting them in ... [But] the arrival of four American gunboats in July 1853 was hardly a surprise to the Japanese authorities.⁴⁹

And, Duus goes on to note:

The dogged, humorless, and imperious American commander, Matthew Perry, was determined to succeed in browbeating the Japanese, whom he viewed as vindictive and deceitful. [!] He sailed his “black ships” under the guns of forts guarding the entrance to Edo [Tokyo] Bay, plunging the city into consternation and implying his willingness to use force in negotiating a treaty with Japan.⁵⁰

When Perry left in 1853 he vowed to return, and did so, in the spring of 1854. Despite considerable discord and confusion, the ruling military clique then made two fateful decisions: to avoid hostilities, and to open two remote ports to the Americans.

The camel’s nose was in the tent, shortly to be followed by its body, and those of other camels: first the United States, then Britain ... just as had happened in China.⁵¹ All this took place under the centuries-old Tokugawa regime. Its downfall followed shortly after, with the “Meiji restoration” of 1868. This was achieved through a military *coup d’état* led by the *samurai*. What then ensued was the emergence of a hybrid society mixing the utmost in modernization with the functioning remnants of a feudal order.

In prior decades there had been a slow movement toward commercialization and some industry; its acceleration was one of the main aims of the new regime. The developments were swift and pervasive, and produced an industrial capitalist nation within the enduring sociopolitical framework of a feudal culture. The latter’s viability, though diluted, had a major shaping influence on the entire process.

Feudalism had been formally abolished, but its “spirit” continued to rule (and in some ways does still). Specifically, its abolition meant modifications in land tenure, the lifting or reduction of restrictions on

transportation, communications and trade, and the revision of the institutions of property and class mobility to suit the emerging new society.

At the same time, the State – ruled over by lords (*daimyo*) and those beholden to them – took an active role in aiding, encouraging, and subsidizing developments in transportation, agriculture, finance, education, foreign travel and trade, and (if only temporarily) in the ownership and development of certain industries strategic to military strength.

As E.H. Norman has shown, Japan thus reversed the structural development of other industrializing nations (with the partial exception of Germany) – from heavy to light industries and from military to consumer goods.

It was the Meiji policy to bring under governmental control the arsenals, foundries, shipyards, and mines formerly scattered among [feudal] domains, then to centralize and develop them until they reached a high level of technical efficiency, while at the same time initiating other strategic enterprises such as chemical industries ... and the last step was to sell a large portion of these industries to the handful of trusted financial oligarchs. But control over the most vitally strategic enterprises, such as arsenals, shipyards, and some sectors of mining, was kept in government hands ...⁵²

“The handful of trusted financial oligarchs” came to constitute the core of those who controlled – and most benefited from – Japanese economic development, the *zaibatsu*.⁵³ The latter were the power structure not only for industry but agriculture and trade, transportation and banking. That structure was one of pervasive cartelization and monopolization; the *zaibatsu* presiding over it was in turn led and dominated by the four largest groupings among them: the Mitsui, Mitsubishi, Sumitomo, and Yasuda – household names still today.⁵⁴

Between 1895 and 1905 Japan had achieved great industrial strength; in terms of its gross national product, it ranked behind only Britain, Germany, and the United States. Its economy was unique to Asia; the Pacific Ocean to its east and the great land mass to its west gave it that kind of spatial defense enjoyed by the United States throughout its existence; and which both permits and encourages aggressive expansion against those within reach (and weaker).

Thus the Sino-Japanese and Russo-Japanese wars of 1895 and 1905 (respectively) – with more to come, but only (as will be seen), under circumstances not likely to continue – the circumstances that captured Veblen’s attention in the years when he was studying German development.

In the Japan of the last quarter of the nineteenth century, where public

interest began and private ended was much more obscure than elsewhere, except Germany. Writing in 1915, Veblen mused on Japan as follows:

power vests in a self-appointed, self-authenticated aristocratic cabinet ... with the advice, but without the consent of a "parliament" endowed with advisory power. This bureaucratic organ of control is still animated with the "Spirit of Old Japan," and it still rests upon and draws its force from a population animated with the same feudalistic spirit ... It is only in respect of its material ways and means, its technological equipment and information, that the New Japan differs from the old.⁵⁵

Veblen goes on to observe⁵⁶ that the industrialization process is not an old wine that can be poured into a new bottle; the wine of modern industry requires – indeed, Veblen argues, *produces* – its own bottle:

The "Spirit of Old Japan" is an institutional matter; that is to say it is a matter of acquired habits of thought, of tradition and training, rather than of native endowment peculiar to the race ... [As] Japan has with great facility and effect taken over the occidental state of the industrial arts, so should its population be due, presently and expeditiously, to fall in with the peculiar habits of thought that make the faults and qualities of the western culture – the spiritual outlook and the principles of conduct and ethical values that have been induced by the exacting discipline of this same state of the industrial arts among the technologically more advanced and mature of the western peoples. For good or ill ... the modern industrial system ... is in the long run incompatible with the prepossessions of medievalism.⁵⁷

That could be read as a dry academic observation on the connections between industry and society; but Veblen had much more than that in mind. Writing just as World War I had broken out, Veblen argued that Japan's future as a great power would be an outcome of how the balance between the culture of the old and that of the new would fall. His "Opportunity for Japan" thought it "still safe" to see the "deterioration" of the feudal culture and its discipline as *not yet* having advanced to the point of endangering the Meiji elite's plans to have industry "serve the turn for the dynastic aggrandizement."

However, its industrial strength ... must be turned to account before the cumulatively accelerating rate of institutional deterioration overtakes and neutralizes the cumulatively declining rate of gain in material efficiency: which should, humanly speaking, mean that Japan must strike ... within the effective lifetime of the [present] generation

... must throw all its available force, without reservation, into one headlong rush; since in the nature of the case no second opportunity of the kind is to be looked for. (Veblen, 266)

Even though Japan had fought two successful wars (against China in 1895 and against Russia in 1905) it was still seen as a quaint and backward nation in the West. "Within the effective lifetime of that generation" (as the 1930s opened) Japan had struck victoriously into China and annexed Manchuria and its rich mineral deposits. Not much later it was spreading south and west in Asian lands and was making its plans to bomb Pearl Harbor.

World War I was beneficial to Japan, increasing its exports and strengthening its relative strategic position in Asia as the other powers (the United States excepted) were weakened. By the late 1920s Japan was among those suffering from a disintegrating world economy. Its heavy industry needed both raw materials and markets. It had also had to contend with – and suppress – labor and socialist movements both before and after the war: labor and socialist movements that were but one outcome of industrial capitalist development in Japan – and everywhere else. By 1930, following Italy and preceding Germany, for reasons both somewhat similar and very different, Japan became the second major fascist nation, thereby realizing Veblen's prediction.

This survey of the industrial capitalist developments of what by 1914 were the major economic powers in the world (let alone the other industrializing, or non-industrializing, societies) is not intended to be comprehensive.⁵⁸ The national discussions have sought to illuminate several major (among other) points: 1) the nature of the quite diverse paths taken by the countries examined; 2) the major reasons they were enabled or led to take such different paths; and 3) a somewhat different matter; to provide the historical background for subsequent analyses of the *economics* that developed in the period 1850–1914. That background will show that, with rare exceptions, the economics profession was inexcusably – though explicably – aloof from obvious economic realities throughout the entire period – except for the small group that included Marx and Veblen.

Before turning to the evolution of neoclassical economics – those who shaped it and those who criticized it – it is essential to examine two important developments reacting to, supporting, or ultimately serving to push the processes of capitalist industrialization to the destruction of world war, and thence to the chaos and convulsions that produced the next and even more destructive war: the emergence of labor and socialist movements, and the spread and nature of global imperialism.

ARISE, YE PRISONERS OF STARVATION!⁵⁹

Because industrial capitalism took hold first in Britain. Britain was also the first home of what may be seen as a broad variety of attempts to slow or redirect its pace, and to redress the balance between its prime beneficiaries and the great mass of losers – in a word, to reform it as it went on its way. Note “reform,” rather than “revolution” as the aim. That was the nature of virtually all efforts in *Britain* up to 1918. On the Continent matters were different, and the United States and Japan were different again, compared to the British and the Europeans, as well as with each other. Britain first.

As was noted in Chapter 1, even before modern industrialization began, the consequences of the enclosure movement for the majority of agricultural workers were severe. For them, the best that can be said for the half-century before 1800 is that it was better than the coming of the factory system: ruthless and dangerous treatment for all – young or old, man, woman, or child. Consider this, taken not from a work critical but accepting of capitalism:

The nature of the mass of evidence concerning the status of factory workers under *laissez faire* and unrestricted competition may be illustrated by the testimony before a Parliamentary committee in 1816. A cotton manufacturer stated that children as young as five years of age were employed; that the usual hours of work were fourteen, some mills requiring fifteen; and that some mills allowed no intermission for meals. A magistrate testified that the warm, humid, unventilated mills, with cotton lint ... polluting the air, induced a condition that required the frequent administration of emetics. A physician whose father-in-law owned a large mill testified “with the greatest reluctance” that the children, when they first came to the mills, with the close, humid atmosphere and high temperature, were seized with a mild fever and were subject to a subsequent debility. There was no protection from the machinery, and he had “too often” seen workers crushed to death, and the mangling of the hands of the children was “a very common thing.” He stated further that children ... were never allowed to sit down during working hours; that they frequently walked two miles from their homes to the mills; and that the factories in his community usually operated from 6 o’clock in the morning until 7 o’clock at night in the summer, and from 7 until 8 in the winter ... and consumption [is] extremely common. (BKU, 433–4)

That discussion of this and related matters took place in conjunction with its authors’ summary of the Factory Acts – legislation

meant to curb the foregoing (and many other such) outrages, which typified the years after 1800, when all protections of labor had been extinguished. Several points are noted by the authors concerning the Factory Acts passed in 1802, 1819, 1833, 1842, 1844, and 1847, which were designed to improve the sanitation, hours, and safety conditions of children and women in the mills and mines. First, "men were excluded out of deference to the principles of *laissez faire* and freedom of contract"; second (and this noted more than once), "the most significant fact regarding the law was that it remained from the beginning virtually a dead letter" or "this law also was not enforced"; and, third, they cite Richard Arkwright (the first textile factory master) as remarking that in the 14 years of the relevant Act, "his factory had been visited only twice" (*ibid.*).

***"Don't waste any time in mourning. Organize"*⁶⁰**

Those realities for the years 1800–50 are representative of a larger and darker picture.⁶¹ Together they go far to explain why in those and subsequent decades the workers (and religious and lay reformers such as Robert Owen) in Britain sought to form effective trade unions, instigate reforms, to initiate a socialist movement and the British Labour Party.⁶²

The first half of the century was turbulent, and the propertied classes were nervous more often than not – as well they might have been. First, they were surrounded and much outnumbered by a large and always growing and more desperate class of "proletarians" – defined as those whose very survival (unlike their predecessors or themselves) had come to depend on subsistence wages received from generally heartless strangers. Second, the ways and means of factory work (to say nothing of that in the mines) stood in sharp and usually awful contrast to the pre-industrial lives of this impoverished working mass and not only could, but occasionally did, have an incendiary effect because of the combined impact of its regularity, its routines, its monotony, its dangers, and – as Marx saw it – its "alienation."⁶³

Moreover, all these people were not only *not* living in the countryside, they *were* "living" in cities and, as Hobsbawm exclaims, "what cities!"

It was not merely that smoke hung over them and filth impregnated them, that the elementary public services – water-supply, sanitation, street-cleaning, open spaces, etc. – could not keep pace with the mass migration of men into the cities, thus producing, especially after 1830, epidemics of cholera, typhoid and an appalling constant toll of the two great groups of nineteenth-century urban killers – air pollution and water pollution, or respiratory and intestinal disease ... (Hobsbawm, 1968, 67)

“Not merely” all that. For it was taking place in a society where the poor masses were constantly reminded of the rich few – Disraeli’s “two worlds” – for whom the desperate *knew* they were producing great wealth, the basis for which they could *see* with their own eyes as it left the factories and mines, could *see* the private form it took – what Veblen came to call “conspicuous consumption, conspicuous display, and conspicuous waste”⁶⁴ – *see* their great houses and horses and carriages and servants, *see* their finery, *see* their grand balls and their monuments. *See* all this and more, as they starved, as their families were split apart, as they died prematurely. Who could be rich and *not* worry?

But the Establishment – the polite English term for “ruling class” – got away with it, for the usual reasons. First, the State was always there to make any recalcitrants pay a very high price – prison, deportation, execution; second, to form a union or a co-op, or to organize a movement such as the Luddites (“the machine breakers”)⁶⁵ or the Chartists required overcoming the obstacles of fear and division and confusion inside the group, as well as to withstand the powerful opposition from outside. It’s hard to do such things in our time and place; it was much harder then and there.⁶⁶

The harshness of life for most *before* 1850 can be imagined when it is noted that subsequently, after the so-called “golden years” of the 1870s and up to the end of the century, it was estimated that in London and York “about forty per cent of the working class lived in poverty,” with no more than 15 percent of the working class – usually called the “aristocracy of labor” – living in comfort (Hobsbawm, 1968, 134).

Perhaps what that can mean in terms of one’s physical existence (among much else) is more than symbolized by another set of facts:

In the 1870s eleven- to twelve-year-old boys from the upper class public schools were on average *five inches taller* than boys from industrial schools, and at all teen-ages three inches taller than the sons of artisans.⁶⁷ (*ibid.*, Hobsbawm’s emphasis)

It is testament to the power of the State that despite these conditions of exploitation and repression – and because of them – the British trade union movement had trouble getting off the ground before 1850 and only began to move toward its modern forms in the early 1870s, when there was a spurt in organization. But no more than that.

It was only when “hard times” appeared at the very end of the century that unionism finally became significant in industry and in Britain’s politics – aided by the formation of a socialist movement (with two parts – one radical, and the other and larger group, moderate) – all of which managed to become the basis of an increasingly significant Labour Party before World War I.⁶⁸

Socialist movements in Europe

Workers' struggles against capitalism on the Continent stood in sharp contrast to those in Britain. On the Continent industrialization did not take hold until well into the last half of the nineteenth century, with Germany leading the way, followed by France and Italy.⁶⁹ In all three countries there emerged a complex of trade union movements that soon politicized, incorporating the theoretical frameworks of Marxian socialism, anarchism (or syndicalism), and, very much in response to those, Christian socialism – ultimately to become Socialist, Communist, or Christian Socialist parties.⁷⁰

Why the continental nations should differ as sharply as they did from Britain is of course a matter too complicated to be explained briefly; but the main elements making for differences can at least be noted. First, although capital and labor were sharply set off from each other in Britain, the class structure there was less entrenched than for France and the others. Next, Britain *had* come first, and by the 1870s (when the continental developments had begun to take their ultimate shape), Britain, benefiting from its "lead" and the accumulating loot from its empire, was able to begin "sharing the wealth" to some degree with at least parts of the working class ("the golden years"). Finally, the three continental nations were just as much "behind" as Britain was "ahead," and had much less social leeway.

For the foregoing and connected reasons, it is both relevant and interesting to note, Marx expected that socialism would come to power first in Britain or the United States,⁷¹ and would do so peacefully. Too bad he was wrong.⁷²

And the United States?

Has the U.S. not also had a class struggle between capital and labor? Of course it has, even if awareness of that struggle more often than not has been from the top down rather than from the bottom up. Gabriel Kolko loosens the knot of confusion somewhat on this matter in what follows:

American society could ... be understood as a class structure without *decisive* class conflict, a society that had conflict limited to smaller issues that were not crucial to the existing order, and on which the price of satisfying opposition was relatively modest from the viewpoint of continuation of the social system. In brief, a static class structure serving class ends might be frozen into American society even if the interest and values served were those of a ruling class.⁷³

In addition to those (and still other) reasons why American workers would be less class-conscious than workers elsewhere, the major factor has been that they have been (and are) "paid the wages of whiteness," as Roediger puts it. Those "wages" have not been mostly in money but in support of self-destructive attitudes combining superiority, fear, and hatred – cultivated attitudes decisive for the sustenance (and worsening) of the status quo.

Given all that, U.S. trade unions have been relatively conservative from their beginnings, with impermanent or rare shifts toward New Deal liberalism or radicalism. In terms of continuity, the American Federation of Labor (AFL) was the bedrock of U.S. unionism. Although before World War I about one-third of its members were also members of the American Socialist Party (led by Eugene Debs), the official anti-socialist position of the AFL was set in the 1890s, and has not wavered since.

The AFL's greatest crisis came in the 1930s, when it was challenged by the newly-formed Congress of Industrial Organizations (CIO), which sought to make it feasible to organize workers in mass-production industries such as autos, steel, and rubber. Before and for a brief period after World War I, workers had their strongest connection with radicalism. The greatest numbers were with the American Socialist Party (ASP); less numerous but more radical were those in Industrial Workers of the World (IWW). Whatever else set them apart from their European and British counterparts, these two groups stood gloriously alone in one critical issue: they both opposed U.S. entrance into World War I.

For that Debs himself and other Socialists as well as many Wobblies were sent to prison (or deported); in addition, after the war it became all too common for Wobblies to be lynched, as often by AFL members as by war veterans. (And as will be seen, the "Red Scare" of the 1920s virtually ended both groups' meaningful existence, while also severely weakening trade unions.)

More than the unionism of any other nation, that of the United States earned the name "business unionism," a term usually used without derision. What it signified early in the century and still does is that the concerns of U.S. unions are confined to better wages and working conditions (which in the 1960s came to mean pensions, health care, and paid vacations), and almost always for their own unions only.

Necessary though such efforts are, of course, they do little to improve the larger social process. This stands in contrast to the ubiquitous efforts of the British and European unions to seek political power through affiliated parties, power that could be (and has been used) for broader purposes. (We return to those matters in Part II. Suffice it to say here that both before and since World War I, American workers have given almost

all their votes to the Democratic Party, whether because of its virtues or as the lesser evil – until Reagan's ability to sell irrationality made many workers willing victims of the anti-union GOP.)

Japan and Germany (again)

As we have seen, Japan stood almost alone in its developmental qualities before World War I – with, as always, some similarities with Germany. Because of the combination of the long-standing strength of militarism in its culture, and the great powers of the *zaibatsu* both in and outside the State (in addition to other reasons), the difficulties of organizing unions in Japan were more imposing than in any other industrial country. Lockwood summarizes those difficulties as follows:

the power of the *zaibatsu* concerns in the labor market, where they were careful to maintain a common front, helped to stifle the growth of a vigorous trade union movement. There were other obstacles to trade unionism, to be sure – the pressure of population, the prevalence of female labor in factory industry, the wide dispersion of small enterprise throughout the countryside, the lack of experience in democratic mass organization. But the weakness of collective bargaining, even at its height in the twenties, and especially Japan's lagging progress in factory and social legislation, must be attributed in large measure to the intense opposition, led by business interests, which greeted every proposal for advance in these fields. Whatever the business rivalries of big firms, here they closed ranks and presented a solid front. In the political realm, as well, the existence of concentrated business power retarded the growth of democratic movements at home, while providing a pliant instrument for military aggression abroad.⁷⁴

In concluding this discussion of labor and socialist movements before World War I, it is interesting to contrast Germany's experience with that of others, most especially with that of Japan – with whom its similarities were greatest.

In Germany too there was great repression, both of efforts to unionize and even more of socialists – who were outlawed. But the stark differences between the desperate lives of most German workers on the one hand, and, on the other, their productive efficiency (as noted, the highest in the world, in the late nineteenth century) combined with their overall desperation to maintain continuous pressures for more and effective organization.

Bismarck, the Iron Chancellor, in comparison with his counterparts of other times and places, was a "relative conservative." Thus it was he who,

in order to “kill the socialist movement with kindness,” in 1881 introduced the first social legislation of the modern era, the beginnings of the first comprehensive “social security program” in the industrial capitalist world.

It worked in the 1880s; but by the end of the 1890s the rigors of their lives prodded the workers to form in Germany what soon became the largest socialist party in the world. With its strong unions and its many seats in the Reichstag, the German socialists seemed on the way to fulfilling at least some of Marx’s expectations. But the German Left had an Achilles’ heel. This was early perceived by Veblen when, writing in 1907, he put forth the following analysis:

with the passage of time and the habituation to warlike politics and military discipline, the infection of jingoism [has] gradually permeated the body of Social Democrats, until they have now reached such a pitch of enthusiastic loyalty as they would not patiently hear a truthful characterization ... The relative importance of the national and international ideals in German socialist professions has been reversed since the seventies ... The Social Democrats have come to be German patriots first and socialists second, which comes to saying that they are a political party working for the maintenance of the existing order, with modifications.⁷⁵

Seven years later, German socialists sitting in the Reichstag voted for the “war credits” that financed Germany’s entrance to World War I, as their socialist counterparts were doing in the parliaments of France and Britain.

Veblen’s gloomy conclusions to the foregoing observations were all too applicable to what lay ahead not just for the next few years but for the rest of the century – applicable, unfortunately to U.S. labor (among others), which all too cheerfully lent its patriotic weight to the Cold War (wittingly or not, in exchange for material gains):

The imperial policy seems in a fair way to get the better of revolutionary socialism [in Germany], not by repressing it, but by force of the discipline in imperialistic ways of thinking to which it subjects all classes of the population. How far a similar process of sterilization is under way, or likely to overtake the socialist movement in other countries is an obscure question ... (Veblen, 456)

Now to those “imperial policies,” which, in conjunction with ongoing industrial capitalism, took the world to the havoc of war.⁷⁶

A PLACE IN THE SUN

That phrase served as the slogan for Germany's imperialist thrust. Its energies, along with those of all the other industrial capitalist nations, began their rise to fever pitch in the 1880s. Even though well before then Britain's colonial empire was vast, it too joined the imperialist scramble across the globe. The term "imperialism" requires amplification – not only because so many economists and even some historians deny its existence, and reduce it to euphemism, but because those who acknowledge it do so with analytical differences.⁷⁷

The first to approach imperialism systematically was the British economist J.A. Hobson (1858–1940) in his book *Imperialism: A Study* (1902). In terms of U.S. political classifications, Hobson would be seen not as a radical or Marxist, but as something of a New Deal liberal. His central theme was that British unemployment (then high) was a result principally of the inadequate purchasing power of the general population; that in turn was a consequence of the inequality of income. He posited that such inequality, and its high savings rates among the rich, required and led to substantial investment abroad to keep the national economy relatively buoyant – albeit at the cost of high unemployment.⁷⁸ The remedy was to reduce the inequality of income, raise the purchasing power of the working class, and eliminate the need for imperialism.

Whatever was missing or wrong about his analysis, it is generally agreed that it stimulated and furnished the starting-point for Rosa Luxemburg's *The Accumulation of Capital* (1913) and Lenin's *Imperialism: The Highest Stage of Capitalism* (1916). They in turn provided the basis for subsequent (and continuing) Marxist analyses and debates over imperialism, as well as the mainstream position that the phenomenon does not exist – or, if it does, it has always done so, and has no integral connection with capitalism as such.

Most of the mainstream rejection of imperialism as an outgrowth of maturing capitalism has been conducted by historians; the only mainstream economist who took the arguments seriously – as he did Marxism in general – was Joseph A. Schumpeter (1883–1950).⁷⁹ It is not irrelevant to note that Schumpeter, like Veblen, is often seen as a sociologist and historian, as well as an economist; that to be a trustworthy economist *should* also mean – irrespective of one's political position – to be seriously familiar with relevant sociological and historical studies is rarely remarked.

Schumpeter's critique of Marxian imperialist theory is largely sociological. He does not deny the ugly nature of the "facts" of the imperialism of the half-century preceding his study (as most other mainstream thinkers did). His point was that far from being an outgrowth of capitalism, it was intrinsically *opposed* to the very nature of capitalism: a

“bourgeois,” rational system for organizing economic life, as he saw it. The contradiction between the realities of the capitalist era and his view of capitalism’s intrinsic nature were resolved by his belief that

from the earliest times to the twentieth century men have been governed by drives of an irrational and instinctive kind which have cut across the rational pursuit of material interest assumed by the model [of pure capitalism] ... drives expressing themselves in the *political* sphere.

This provides the basis for his definition: “Imperialism is the objectless disposition on the part of the state to unlimited forcible expansion.”⁸⁰

Implicit in the disagreements of the foregoing discussion is a theory of power, or, more narrowly, a theory of the State. Are the powers of the State largely independent of other areas of power – specifically (here) those of the economic arena? If so, one could accept Schumpeter’s argument (which he made more fully than above). But if, as is assumed here (in consonance with, among others, Marx and Veblen), the powers of the State are organically linked with those of capital, and that where one begins and the other ends in the capitalist process is perhaps impossible to perceive, then Marxian theory and others of its sort become plausible. It could allow one to believe, for example, that the powers of the State and of business are one and the same, only in different forms. That is not assumed here, nor was it by Veblen or by most Marxists. The latter indeed have been and remain in conflict with each other, not only because the relationships and processes are as intricate as they are numerous, but because one of the major gaps in Marxian theory has been and remains its theory of the State – a gap begun to be filled in recent decades.

Leaving that discussion now, in what follows it will be assumed that imperialism – as distinct from colonialism – emerged during the last half of the nineteenth century, that it was not the policy of a particular nation so much as that of *all* the industrial capitalist nations, and that it was just as integral to capitalist development as industrialism, the combination of which was to become disastrous in its effects.

Now to some of the high (or low) points.

The rat race begins

The imperialist phase of capitalist expansion was initiated by the “scramble for China” in mid-century, the turbulence that had jolted Japan back into the world. By the 1880s it became more intense and more dangerous with the “partition of Africa,” a carving-up in which others than the already present British, French, and Dutch sought to have a slice.

Setting aside Belgium,⁸¹ what they (mostly the Germans and the Italians) got was more in the nature of slivers than slices.

But that process, picking up where the slave trade and related predations on what ambiguously was called “the dark continent” had left off, carried on over the centuries with both quantitative and qualitative jumps in its military violence and social destruction. Seldom is it remarked that the widespread and seemingly endless tragedies in that continent – now *formally* freed of western power – have been and remain today the inevitable consequence of the “carving-up” process. In addition to the death and destruction each step along the 500-year path, the ancient and “natural” forms of social organization of the numerous peoples of Africa were comprehensively “reorganized” to fit within the boundaries set by the imperialists. Numerous tribes found themselves compressed organizationally into a nation and, frequently, separated by borders entirely artificial to them. These borders, within which the government, the ruling religion, the economy, the military strength, everything resided, were in the hands of foreigners who knew nothing of their language, their customs, their needs, their lives – and furthermore couldn’t have cared less.⁸²

... And speeds up

While the Europeans were busying themselves in the Middle East and Africa (and elsewhere), from the 1880s on, Japan and the United States, both geographically isolated from any serious military conflict with the Europeans, were picking up small or large chunks of empire for themselves with impunity.

Japan made a foray into Formosa (now Taiwan) in the 1870s, was booted out (with the help of the French in the 1880s), and returned to stay until 1945 as part of its gains from the Sino-Japanese war of 1895. It began its first moves into mainland China as a dividend of the Russo-Japanese war of 1904–05, which poised Japan on the edge of Korea and Manchuria – taking formal control of the former in 1910, and making its successful invasion of the latter (with its strong resources in coal, iron, and oil, as well as its agriculture) in 1931, while also paving the way for its larger invasion of 1937.

As for the United States from the 1870s to 1914, the historian William Appleman Williams records 25 “American interventions excluding declared wars” in those years. There were, of course, also some declared wars, most importantly the Spanish-American war.⁸³ The stated reason for that intervention in what began as a revolution in Cuba to oust the Spanish was to help the Cubans do so; the consequence was that the Spanish were kicked out and the U.S. moved in (until kicked out in turn by Fidel Castro).

The U.S. picked up not only Cuba, but other bits and pieces of the Caribbean, the largest bit being Puerto Rico. At the same time, and for the same reasons, the U.S. helped the Filipinos rid themselves of the Spanish, only to find themselves confronted by the Americans in a war in which, it was conservatively estimated, 300,000 Filipinos were killed. They then became an *American* colony.

In short, it is not the Africans who are the cause of today's deadly problems in Africa, but their historical invaders. The same is, has been and remains equally the case in Latin America and the Caribbean, in Asia and the Pacific islands, in the Middle East and the Mediterranean littoral, in the Balkans, in Eastern Europe. What was done to the Native Americans has already been discussed.⁸⁴

... Then explodes

It is revealing to examine one process in one geographic area, as a microcosm of imperialism and its proclivity for fomenting war. This process centered in the Middle East and on what might seem to be a simple matter of transportation, "the Berlin to Baghdad Railway."

It all started with a concession given by Turkey to Germany to build a railroad connecting Istanbul (Constantinople) with Ankara (both in Turkey), with branch lines into, among other areas, Persia (now Iran). Soon however, the financing and the control of the project became a tangle of conflicting business and national interests, with each of the major powers (rightly) fearful that its interests would be compromised or broken. Britain, as the major sea power in the Mediterranean and with control of the Suez Canal and thus trade with the East, adamantly opposed *any* competition by rail. Russia, with its long-standing enmity with Turkey, was nervous about the possibilities of increased German influence. France worried that its substantial but increasingly fragile position in the Middle East would break down. And so it went. Tempers frayed, fears rose, conflicts multiplied, battles began to break out – hither, thither, and yon: small at first, rising both in number and importance over time.⁸⁵

Then, on a sunny afternoon in June 1914, and seemingly quite irrationally, a student in Sarajevo shot and killed Archduke Ferdinand of Austria. And the festering wounds turned gangrenous.

Keynes, in the opening pages of his *The Economic Consequences of the Peace*, memorialized that moment in his (perhaps sardonically) elegant way when he exclaimed: "What an extraordinary episode in the economic progress of man that age was which came to an end in August 1914!" He went on to note the much-celebrated accomplishments of that "episode" for "the greater part of the population" for several paragraphs, before concluding:

But most important of all, he ["the inhabitant of London"] regarded this state of affairs as normal, certain, and permanent, 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, restriction, 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 internationalisation of which was nearly complete in practice.⁸⁶

The "projects, politics, and rivalries" that played "the serpent to this paradise" were not in the nature of warts, but the bone, meat, and gristle of a world shaped by social institutions and processes that simultaneously depended upon and feverishly increased both conflict and competition. War could not be avoided in that context; at best it could be postponed for such time as economic and geographic expansion might be prolonged. But the growth of profitable markets and expansion over the planet's surface have their limits, the first set by purchasing power, the second by nature.

If there was little surprise when war broke out in 1914 there was both surprise and shock at the war's depth, its duration, its spread, and its seemingly unparalleled (up to then) savagery.

Except for the first industrial war – the Civil War of the United States – there had never been even an intimation that war could be so destructive on such a large scale, that it could endure for so long. As early as 1915, in Germany – which had "started the war" – it was being called "the endless war," by the very people who had supported it.

The damages done by the war were unprecedented. They could not be measured only in the 10 million (at least) military deaths and countless civilian dead and wounded, plus the destruction of equipment and resources. The considerably more enduring damage was social: in that realm the war's effects were those of a massive earthquake, followed by seemingly endless aftershocks – which, in an important sense, have never ceased, and may never cease.

We will see in the next chapter that those causes of the war that may be seen as economic, far from being resolved, were exacerbated. That was clear to Keynes (and was indeed a major theme of his *Consequences*). He was but one of those – Veblen was another, if with different reasoning – who warned that the end of World War I was but the prelude to World War II.

For, it may be asserted, destructive though that war was, it was not destructive *enough*; not destructive enough to weaken the principal contenders sufficiently to deter them from further social lunacy. That "sufficient destruction" was provided by World War II. At its end, among almost all the major and minor powers, only the United States was able to

fend for itself – even, for a while, to feed itself.⁸⁷ Less obvious, but at least as important was that the vital heart of capitalist vitality – and thus of the viability of the entire social process – had been critically wounded. A functioning world economy no longer existed.

Thus had the dynamic interaction of capitalism, industrialism, nationalism, and imperialism – an interaction guided by the power of the “big four” economies of Britain, the United States, Germany and Japan – set the stage for the chaos and convulsion, the revolutions and counter-revolutions, the economic cataclysms, and the vast cultural and social transformations that culminated in World War II. It was the predictable (and predicted) outcome of the Peace Treaty and its “armistice,” a pleasant euphemism for an armed and deeply unstable truce.

Had you lived from, say, 1880 to 1910, and confined your reading entirely to the works of the neoclassical economists, you would never have suspected that the world was undergoing the most rapid processes of social, economic, cultural, political, and technological change in history; or that the world was in tumult (and shouting). The bigwigs of economics sailed placidly – and all too often arrogantly – on their way, living in another world. It was the analytical smiling face of that “typical inhabitant of London” immortalized by Keynes.

ECONOMISTS IN WONDERLAND

‘Twas brillig, and the slithy toves
 Did gyre and gimble in the wabe:
 All mimsy were the borogoves,
 And the mome raths outgrabe.

The serenity of those lines, and their meaninglessness,⁸⁸ well represent what economics was coming to by the third quarter of the nineteenth century, and which – called “neoclassical economics” – had taken center stage by its end: despite all.

That “all” has been the focus of this chapter. Its materials hardly support serenity; nor, insofar as neoclassical economics became and remains the fig leaf of capitalist ideology, was it meaningless. The concealment was and is systematic, a matter of “methodology”: intrinsic to its theoretical system was a group of assumptions (its “paradigm”) wherein the theory “moved.”

“Let us now assume ...”

What is wrong with neoclassical theory is not, of course, that it makes assumptions. All theory must do so; which is to say that theory *entails*

abstracting from certain elements of reality.⁸⁹ The assumptions of a theory consist of what is taken by the theorist as not essential to the main matter to be explained and can therefore be “set aside” – *not* examined, *not* taken into account in the theory.

It should not be necessary to add that if and when the assumptions of a theory are “relaxed” and the relevant reality brought back into focus, the theory should retain its validity. Thus, when Newton assumed away friction in his model $S = \frac{1}{2}GT^2$ – his theory of gravity still held when tested in the real world of ubiquitous friction.

That is notoriously not the case when any one (let alone all!) of the neoclassical assumptions are “relaxed” – that is, when reality has jumped back over the barricades against reality. Why that is so is illuminated by an examination of when and how and why that way of thinking came into existence.

As was noted in Chapter 1, classical political economy came into being as an attack on and critique of the dying remnants of the feudal and mercantilist periods. It was an economics of change and development. As such it was concerned with processes extending over substantial time, taking on their pace, direction and forms because of the *connections* between the economy and the larger society: thus “political economy.”

But neoclassical economics came into being as economists had begun to view industrial capitalism as fully *established*, most especially in Great Britain. Among the many who gave that economics its main outlines and outlook, Alfred Marshall (1842–1924), though not an originator, became pre-eminent. He synthesized the works of others and, in doing so, gave neoclassical economics its “character” – a character conservative in all meanings of the term.⁹⁰

We have seen that economic theory concerns itself with three major areas of economic life – the functioning of particular markets (labor, commodity, financial), called “microeconomics”; the functioning of the economy as a whole, or “macroeconomics”; and its functioning in world markets, or “trade theory.” The last was inherited from Ricardo, and has changed little over the decades, except to become (like economics in general) always more abstract.

Macroeconomics, we saw in Chapter 1, was brushed out of existence by Say’s Law which, in asserting that “supply creates its own demand” essentially meant there was *no* problem, except to keep the government out of the economy.⁹¹ Much attention continued to be given to the aggregative behavior of the economy in the period under examination here, for it was going through the ups and downs called business cycles. Although the theories of the cycle that came into being were of no lasting value, the empirical work often associated with them has been, not least that examined and analyzed by Schumpeter.⁹²

That is, neoclassical economics may be seen almost entirely as trade theory and microeconomics, the latter's main elements constituted by "the theory of the firm," "the theory of (individual) demand," and "the theory of distribution."⁹³ That economics, created well over a century ago, fell into disarray in the period between the two world wars, both because it lacked a macroeconomics and because its emphases on free trade, rationality, and perfect competition – like Say's Law – stood in hilarious (or tragic) conflict with brute realities. Now it is back, even more abstract and even more absurd (and even more dangerous) than ever before: but that's another story. We now examine the original nature of microeconomics, the heart of the doctrine.

Recipes for absurdities

Part of the impulse for neoclassical economics was ideological in origin (to counter the influence of Marx, in a time of growing social tension). Part of it was "technical," seeing the function of economics as that of meeting the relatively narrow needs of the economy – meaning, generally, its business sector – at a time of increasing competition for both resources and markets. The rationale for economics was to become the "science of economizing, maximizing and efficiency and, at the same time, by removing its analysis from history and becoming a theory of "statics," it served as a theory for working within and preserving the status quo.

It became, in the words of its main "methodologist" (as distinct from theorist, which Marshall was), Sir Lionel Robbins, "the *science* which *studies* human behavior as a relationship between ends and *scarce means* which have alternative uses."⁹⁴

But if "science" entails the checking of hypotheses against evidence, and "studies" means attention to reality, that definition of economics – which it is still⁹⁵ – adds up to what has come to be called "disinformation," a member of the ideology family.

Of course there is scarcity – of resources, of the basic necessities of life, and of much else. But, as will be argued more fully in Part II, by any reasonable measure of the use of resources, we waste a scandalous percentage of our natural resources and, therefore and as well, our human resources.⁹⁶ Furthermore, in addition to the misuse of resources, there is the deliberate *creation* of scarcity in the market (for almost everything) by the well-known techniques associated with oligopoly and monopoly – techniques designed to keep prices up in the face of what might otherwise be market abundance (and falling prices and profits). Nor can we forget that for most people the scarcities marring their lives are a consequence of deliberate policies to keep wages low while, at the same time, their prior livelihoods have been "modernized" out of existence, echoing the enclosures of eighteenth-century Britain.

When neoclassical economists paid attention to any of that at all, it was with the cheerful postscript that what may *seem* to have gone awry will take a turn for the better “in the long run.” And what of the main “assumptions” of that economics, then and now? They are contained in what Stiglitz calls “the ingredients in the Basic Competitive Model,” a “model” whose main elements haven’t changed one iota for well over a century, except to become always more mathematized – itself something of a comment on its scientific nature, given that almost everything else *has* changed. The aforementioned ingredients summarized by Stiglitz are three:

1. Rational self-interested consumers.
2. Rational, profit-maximizing firms.
3. Competitive markets with price-taking behavior. (Stiglitz, 31)

Let’s take a look at that trio in terms of realities a century ago, and a glimpse at their subsequent evolution:

1. Consumers

A century (or more) ago (when this economics started) most people were not “consumers” in the modern sense; they were wage-earners, and their wages were so low they had no choices to make, except whether to eat less bread and more potatoes (and setting aside the manner in which the *men* who worked in the mines or mills spent all too much of it on tobacco and beer). Those consumers who *could* make choices, who had some genuinely “surplus” income, were those who captured Veblen’s attention and dispraise, when he classified their consuming habits as “conspicuous display and waste.”⁹⁷

The latter were what must be called “irrational choices.” What the few were doing then in our age of consumerism is now being done by a general population “making choices.” In other words, they are responding to essential, massive, and ubiquitous advertising specifically designed to lead to *irrational* choices: designed, as Paul Baran has put it, to “want what they don’t need, and not to want what they do.”⁹⁸ And to borrow beyond the point of rationality in order to do so.

2. Profit-maximizing firms

Businesses seek to make profits, but there are some quibbles to be made. If we look at small businesses – “small” in the sense of the little bookstore, the corner grocer, the shoe repairer, the barber – those very convenient, usually very hard-working souls (often families) are quite often doing what makes sense to them because the alternative is to close their shops and work for someone else (perhaps at an even higher, or at least more assured income). They are doing what might be seen as sensible and life-preserving, but it is not – as economists use the term – rational. They are

not *calculating* correctly, for such calculation excludes all but *quantitative* considerations. And, it should be added, of all the businesses in the United States, the overwhelming number are very small indeed – and easily 95 per cent of the total of 15 million businesses. Not very rich, and even less secure.⁹⁹

Big businesses are probably run with considerably more “rationality.” But anyone who has worked in one will know that there’s a lot of irrational sludge and drudge – called “bureaucracy” – in the big companies that is more negative than positive in its impact on profits. It exists for various reasons, and it varies from country to country – much higher levels (executive incomes) in the United States than in Japan, for example – but there it is. And, as economists measure (or should measure) such things, it is *neither* rational *nor* profit-maximizing.

3. Competition

Here we come to the factually most outrageous of the assumptions of neoclassical theory: competitive markets with price-taking behavior. As *economists* define competitive markets, they exist only in industries in which all firms produce identical products (and would thus be fools to advertise), no firm is large enough to influence market prices by withholding any of its production from the market, and all businesses (and consumers) possess all the requisite information to make rational choices.

In addition, it is assumed that the State is outside the economic process, that technological change is absent, and the social process is irrelevant. In short, both economists and their students are led to believe that “society,” far from being the subject matter of the social sciences, is merely a synonym for “parameters.” And that numbers – usually imagined numbers – are all that count.

“Ah,” but a mainstream economist reading the foregoing would object, “you are being unfair, you are leaving out all the ‘ifs ands and buts’ of economics.” I do so because they are treated as dirty secrets within the profession (and the study of economics) and seldom acknowledged in public.

That is, in the formulation of economic policy – whether a century ago or now – underlying the rationale for such policies is the assumption that the market is the best guide for economic policy (“Listen to the market!”) *and* that “markets” are perfectly competitive – even though virtually all economists *know* (or used to) that is not so. Nor was it when the theories were being framed.¹⁰⁰

In short, this is not an economics at all, but an elaborately disguised ideology; and as such, it is worse than useless. It was allowed to serve as a guide to economic policy until the 1930s, and after what was once seen as its timely death, strides the world again today. Considering the

human and social costs paid in the past, and those plus its environmental costs now, it verges on a combination of criminality and madness to allow it to persist.

Now we turn all too briefly to Marx and Veblen who, for largely similar reasons, would have *none* of that “economics,” whether on methodological, political, ethical, or rational/scientific grounds.

Counter-attack: Karl Marx

Some know it and some don't, but almost all of those who today seek to understand capitalism (or have sought to since his time) do so at least partially with analytical tools first forged by Marx – though they may not do so in his spirit. But this is to say something else, something stronger: to understand capitalism, it is *necessary* to use Marxian “tools” whatever else is also required.

That is not only or mostly because Marx gave capitalism its name and to perceive its nature. It was that his prior and ongoing scholarship and intellectual profundity led him to recognize that the industrial capitalism of mid-nineteenth-century Britain was a *new social formation*. That recognition drove him to seek to uncover its “economic laws of motion,” and the fuels and machinery that propel it through time and space.¹⁰¹

In earlier pages, expansion, exploitation, and oligarchic rule have been singled out as the imperatives of capitalism, its *sine qua non*. Each of those – or, better, the three of them seen as one – was extricated by Marx from the complicated depths of the capitalist social process, examined at all levels of abstraction and empiricism, and, as he might have put it, “made to reveal itself.”

For economic understanding there had never been anything like the corpus of Marx's work; we may assume there will never be again. Not that Marx got everything right or that he studied all that was necessary. He didn't and he couldn't – for his own time, let alone ours. And he knew it.¹⁰²

What Marx did do was to pierce through the manifold surface appearances of the capitalist process to see them as an organic whole of “interlocking” and dynamically related “parts” with great powers and great needs and great consequences – intended or not, positive or negative (see below).

The social process

He had seen where his analysis was going in 1859, as witness the famous statement that opens his *Contribution to the Critique of Political Economy* (and note the emphasized passages, for they presage some of the key elements of what would become “Marxian theory”):

In the *social production* which men carry on they enter into definite relations that are indispensable and independent of their will; these

relations of production correspond to a definite state of development of their *material forces of production*. The sum total of these relations of production constitutes *the economic structure of society* – the *real foundation*, on which rises a legal and political *superstructure* and to which correspond definite forms of *social consciousness*. *The mode of production* in material life determines the social, political and intellectual life processes *in general*. *It is not the consciousness of men that determines their being*, but, on the contrary, *their social being that determines their consciousness* ...¹⁰³

Marx has been derided as being an “economic determinist.” A thoughtful perusal of the phrases italicized above, not to mention the many explicit arguments to the contrary made throughout his works, shows that Marx rejects such a view. The quotation that follows is worth studying for itself; in giving due importance to that which is “transmitted from the past” (that is, history), it is of course inclusive of much that was not as well as much that was “economic”:

Men make their own history, but they do not make it just as they please; they do not make it under circumstances chosen by themselves, but under circumstances directly encountered, given and transmitted from the past. The tradition of all the dead generations weighs like a nightmare on the brain of the living.¹⁰⁴

Above it was said that Marx saw both negative and positive consequences of the capitalist processes. Negative, clearly; but positive? Certainly. Marx’s radicalism did not inoculate him against the optimism of the nineteenth century. What he found positive about capitalism was that it was the most *progressive* of all historical systems – prising peoples and societies loose from a stultifying past; not least, though by no means only because of its ultimately liberating technology. And, though painfully, capitalism’s achievements would do it in and liberate humanity. How?

The dynamics of nineteenth-century capitalist development

The intended achievements of capitalism include capital accumulation. But Marx argued that the latter *necessarily required and created* a working class thrown together to labor in large numbers under one roof and under harsh conditions; in turn, because they are human beings, they would move inexorably toward the organization they needed to empower themselves. Second, because the accumulation process would just as inexorably lead to a deep crisis of global overproduction that would at some point be met by the rising strength of the working class. Capitalism would have given birth to its own gravediggers.¹⁰⁵

We should live so long. Failed predictions notwithstanding, the *analytical* apparatus of Marx was important in his own time and much of it continues to be basic to understanding today's capitalist processes; and much of it does not. Here we *very* summarily examine what (to this writer) does and does not.

First, it should be understood that Marx's economic theory is to be found in the three volumes of *Capital*; next, that those volumes – whatever their ultimate consequences – were meant as *economic theory* and (specifically as the subtitle of Volume I indicates) “a critique of classical political economy.” For such a critique to be put forth required that it does so on the “territory” and in the language of what was being criticized; which meant, more than anything else, in the land of Ricardian theory.

An earlier discussion of Ricardo had him focusing on foreign trade. But his *Principles* opens with its focus on the distribution of income, and the intent of his theory was to *change* that distribution to the advantage of the industrial capitalist and to the disadvantage of the landed gentry. It is worth repeating the opening lines of his *Principles*:

The produce of the earth – all that is derived from its surface by the united application of labour, machinery, and capital, is divided among the three classes of the community, namely, the proprietor of the land, the owner of the stock of capital necessary for its cultivation, and the labourers by whose industry it is cultivated.¹⁰⁶

As has been noted earlier, Ricardo accepted the “labor theory of value,” which played an important role in his own arguments; and his way of arguing was highly abstract (and ultimately became the mode of analysis for economics). Ricardo was unquestionably the most influential economist of the years in which Marx began his theoretical journey.

Marx did not create the “labor theory,” but he had to deal with it. In doing so, he turned it against its makers, and did so by showing that by *accepting* Ricardo's assumptions it could be shown that the critical share of landholders' income called “rent” (we would call them excess profits) was due to their *power*, not to their contribution to production. The same was true for the “profits” of capitalists. The landholders' power was expressed in Parliament, and gave them protective tariffs; the capitalists' power came from their ownership and control of the means of life: equipment and tools. The end result for the worker was that to survive he would be *exploited*.

Of course the realities of exploitation do not need *theory* to verify them; as long as the term “exploitation” is defined in reasonable terms, all that *is* necessary is to examine the working conditions, the wages, and the power relationships between workers and employers. Marx's use of the

