

POL319 Political Economy in the New Millennium

Week 1:

Towards Classical Political Economy

The main narrative of the first few weeks:



In broad brush strokes, here's the story: for most of human history, humanity remained intensely rural and life was a huge struggle against nature - mostly to get the means of subsistence (read: food and shelter, though rulers/leaders also struggled for 'luxury' goods like spices, jewellery, silks, furs, gold, silver etc). So by 'luxury' here we do not mean modern luxuries like Louis Vuitton handbags, Porches, 400 foot yachts and the like. Always in structures of hierarchy and power, pockets of humanity around the globe tried to do the best they could with the nature (landscape, vegetation and animals) that they found themselves embedded in (for more on this see Diamond's *Gun, Germs and Steel*). Roughly 10,000 years ago certain regions - mostly in the Middle East - started to domesticate animals and plants - and therefore started to settle in villages rather than in the countryside. We start to see the rises of small cities since cultivating plants and domesticating animals means people have to be relatively settled in comparison to hunting and gathering to acquire what was needed most of all: food energy. It is perhaps a law of history that we can do virtually nothing until we have a secure food supply. History probably happens after we have secured the means of subsistence/survival.

After the fall of the Roman Empire (5th century CE) - which stretched as far as England - a new form of social organization called feudalism arose in most of Europe. Though these relationships varied across the continent, the system can roughly be categorized by a system of parcelized and overlapping forms of sovereignty where nobles (kings, princes, religious leaders and other elites) promised to protect peasant producers in return for a portion of their product (read: a tax, which was usually set by custom). Up until the 16th century or so, and depending on where you look in Europe, this tax was paid in kind, not in money. This is to say, peasants might have to offer a pig or two, some of their wheat, some of their vegetables etc to their overlords - be they church officials or princely authorities.

This rural existence - where most of the world's wealth is coming directly from the land/agriculture - and peasants working it, was complemented by the great port cities where others specialized in long-distance trade. The Chinese excelled at this early on but their rulers eventually destroyed their early ocean-going vessels to consolidate their domestic power. Trade, it seemed, opened up the Empire/Middle Kingdom/China to outside influence, something the Chinese authorities argued was disruptive of their own hierarchical order and understanding of the cosmos.

Here, we should note that at this time in history, the most 'advanced' civilizations were in the Middle East and China - which were by no means 'modern' but compared to Europe, were far more 'rich' and 'civilized'. For example, even in the early 1800s during the Opium Wars, when Britain was trying to sell opium to Chinese clients, the Chinese conceptualized the Brits as uncivilized barbarians (and yes, there's a case to be made that Queen Victoria was the biggest drug dealer in history). So the point

here is that Europe at this time is essentially a poor backwater where people struggled for their daily bread.

But in Italy in the 13th century a number of city-states arose that started to excel in long-distance trade. Eventually, more European communities – like the Dutch, Portuguese, Spanish and English started to perfect their own systems of sea/ocean navigation and shipbuilding and embarked upon long-distance trade as well. A body of thought grew up around this system of trade called ‘mercantilism’ (more on this below).

Classical political economy is largely going to challenge this mercantile view of the world and start to formulate its own understanding of a newly emerging capitalist or commercial/market society. The general problem with these formulations – and one of the reasons why we get Marx’s critique – is that all of these theorizations are ahistorical. This is to say, virtually all the classical political economists treat their theories as natural explanations for what’s going on instead of looking at how this new type of social order started to come about (more on this when we talk about Marx).

So Marx levels a staggering critique at classical political economy and its view of the world and those in power get scared. Why? Well, at base, Marx’s basic message will be this: 1) capitalism is not natural but a historical product of people being dispossessed of their access to the means of their own subsistence and furthermore, and what’s even worse, 2) profit or what Marx calls ‘surplus value’ is created because workers are exploited in the labour process - they are paid less than what they produce for the capitalist and the capitalist appropriates this as profit.

So, if a system of exploitation is going on, we need a theory of working class revolution – and that’s what Marx starts to provide. As you can imagine, a counter-theory (not to mention a counter-history) has to be formulated that challenges Marx’s view.

Enter the rise of neoclassical economics. What’s going to happen here is that the ‘political’ in ‘political economy’ will be completely abandoned in favour of a strict ‘economics’ that is increasingly mathematized and formalized in abstract models. It also gets institutionalized in universities. By dropping the ‘political’ the neoclassicals essentially ignore power and relations of domination. I’m going to oversimplify a little but the basic message of neoclassical economics becomes this: never mind about exploitation – it doesn’t happen in the productive sphere of a capitalist economy. All inputs to production – land, labour and capital all get their just desserts according to their contribution: landlords get rent, labourers get wages, and capitalists get profit – all again, according to what they put in to the process. Since there’s no exploitation, there’s no need for anyone to put up a fuss and there’s certainly no need for revolutionary activity among the working classes! The message here: shut up and be happy for what you get. So this kind of thinking is occurring in the late 1800s and the early 1900s and is still taught today all over the world. When you take an economics course at university, you are more often than not being taught neoclassical economics. It is now the mainstream. But later, I will suggest that this is more a religion than a science.

But to fast forward a little we get WWI, the Great Depression and WWII. During this period, a British economist called John Maynard Keynes comes along and essentially invents what today we call ‘macro-economics’ or Keynesian economics. Up until this point, the neoclassicals are doing what we call ‘micro-economics’; they are theorizing at the level of the individual and the firm (hence, the ‘micro’

to capture the small scale actors). There is virtually no awareness of the state or the public's role in the economy. Keynes comes along in a time of mass unemployment and radical activity (more and more people are being convinced by various strands of anarchism, socialism and communism) and makes the claim that the state should spend money into the economy (read: go in to debt) in order to boost employment during recessionary/depressionary periods, and when the economy is doing good, it should tax the population sufficiently to pay back this debt. In other words, Keynes comes up with what will be called 'counter-cyclical' policy - it is counter-cyclical because when the business cycle is bad and unemployment is rising, governments should spend and vice versa when the economy is doing well - governments should pay back debt and cut back on spending. This is of course helpful to the working class, since everyone in a market economy needs a job to generate income and without a job, people generally get organized and can threaten the entire system - particularly if unemployment is sky high like it was during the Depression in the 1930s. Mass unemployment typically means that it's not the individual's fault for being unemployed, but the fault of the system. But note that Keynes is no revolutionary - he essentially wants to 'fix' rather than 'nix' capitalism and government is viewed, contra the neoclassicals, as a potentially positive force in 'fixing' the economy. Keynesian economics will get smuggled into neoclassical textbooks as 'macro-economics' but true neoclassicals hate Keynesians - if only for the major reason that they generally view the 'state' as an agent responsible for intervening in the proper functioning of markets. To be crude, for hardcore neoclassicals, the state, always and everywhere, fucks up the economy (notice again we have this separation between politics and economics - a separation that doesn't hold in reality, as I will argue a little later in the course).

After Keynes - we'll then confront what was called the Cambridge Controversy. This involved a debate between economists from Harvard (situated in Cambridge, Massachusetts in the US) and economists from Cambridge University proper in the UK (where we find more heterodox economists (read: not mainstream). The controversy was over the definition of 'capital' and basically the neoclassicals (at Harvard) lose the debate and have to admit that they don't truly know what 'capital' is and that their theory (read: the production function where land, labour and capital all get their just rewards for their share of input) has to be taken as a matter of 'faith'. From here, it's clear that Economics is no science, but a religion. But since its power is entrenched in universities with academic careers on the line, not to mention the fact that it serves to justify a capitalist market economy, it has remained essentially intact despite critical attacks from radical/heterodox economists.

This controversy will be the main springboard from where we will start to engage a new theory of political economy - one that says that capital is commodified differential power. This is the theory that capital is power - first theorized by Nitzan and Bichler.

So that's rough outline of where we're going in the first couple of weeks. Now what about this week's story?

The main narrative of this lecture:

Next week we will confront classical political economy and consider some of the key thinkers and their ideas. We're basically going to ask: what tasks did they set for themselves? That is to say, what were they trying to theorize or think about - and why? As we'll see, their thinking was inextricably connected to the world they lived in and the changes going on within their societies and the broader world order as the accumulation of money and capitalist social property relations start to emerge. We

should also note right off the bat that most of these thinkers are white, English (or European) and in privileged positions.

This is a key point you should take away with you: as Nietzsche said long ago, ‘there is no view from nowhere’, which means that no human has an objective view on the world outside of his or her own historical context. Put very simply: thinkers in political economy, like all intellectuals and theorists, are embedded in historical time and in certain social situations and not others. For example, some of our key thinkers will use the metaphors of physics (Newtonian mechanics is popular during this period) in their writing as well as biology (Darwin’s *Origin of Species* appears in 1859) since these sciences were coming ‘online’ at this time (1600s – 1800s) but could not use computer metaphors (like: online, re-boot, crash, download, upload, network, interface etc...) since the computer was hardly invented during their own time.

So basically, in this lecture, we want to set the stage for our engagement with classical political economy by asking: What came before? Or, what was going on before these guys bothered to pick up their pens and write? In this way, we’ll be in a better position to appreciate what they were up to and the wrenching social changes they confronted.

Now, obviously we cannot start at the very beginning or this would be a very long lecture! So I’m going to consider some dominant trends – mostly focusing on Europe – which we should be aware of before engaging classical political economy next week.

But, you ask, what is classical political economy? More on this next week but put simply:

It is that body of knowledge concerned with challenging the mercantile view of the relationship between the political and economic by considering the importance of land, labour and capital in the productive sphere of an emerging capitalist economy. Classical political economists also support a market economy and are generally sceptical about government interference in the economy.

With this in mind, what’s going on before the emergence of CPE?

The first thing to note is that human societies are hierarchically structured in overlapping relationships of domination. These of course differ historically but any system of domination – where a small few are appropriating most of the wealth/resources of the community of workers – has to be justified by an ideology that reinforces this relationship of domination/appropriation. In other words, slave owners have to tell themselves a particular narrative about why this relationship exists: slaves are naturally

We should also note that there are two ways to think about CPE – one from Karl Marx (a German political economist 1818-1883) and the other comes from John Maynard Keynes (a British economist 1883-1946).

For Marx:

Classical political economy ‘meant to designate that strand in economic theory originating in France with Boisguillebert (1646-1714) and in Britain with William Petty (1623-87) and reaching its high point with the work of Smith and Ricardo (1772-1823) who ‘gave to classical political economy its final shape’ (Marx, *Critique of Political Economy*).’¹

For Keynes:

‘It was a school embracing all those who, following Ricardo, subscribed to one version or another of Say’s Law, who believed, that is to say, in the self-regulating nature of capitalist economy. On such a definition, classical economics culminated with Marshall and Pigou.’²

inferior, or better at working in warmer climates, they don't have the capacity for reason, we keep the slaves illiterate and generally confined to a physical space so they can't run off/escape etc...

The second thing to note is that the main source of wealth was access to land/agricultural products. Wealth could also be derived from long-distance trade (buying cheap abroad and selling dear at home), the control of slave labour, from holding a tax office, or through direct confiscation as in wars of conquest. There is no capitalist private property at this time to speak of. Liberties and access to land are grants or privileges provided to subordinates or subjects by a royal, religious or princely authority. There were also customary and common rights to land. Since these were not rights in the modern sense, they can be taken away arbitrarily by power-holders. Today, for example, at least in the West, the government can't arbitrarily come and take your home away from you - at least without due cause and compensating you at market value - not so in the past! Modern private property is only sanctioned in England after 1688 when the Crown/King is made subordinate to Parliament (which is run by the wealthy - mostly landowners but some merchants as well). This social property relation eventually spreads - mainly through conquest and by example - to the 'New World' and in Europe itself. In other words, what we are seeing is the gradual abolition of serfdom - and therefore feudal structures of authority.

Third, what today we call economic growth was intimately tied to organic energy and the rhythms of photosynthesis. Even the classical political economists who we will confront next week believe that while an economy can grow for a period, it eventually hits a point where regression is inevitable. In other words, there is ZERO understanding of constant economic growth at this point in history and political economy - so the understanding of progress is also quite limited. Only with the discovery and exploitation of fossil fuels can we get sustained economic growth and a universalized capitalism with beliefs in progress - but more on this later.

Fourth, luxury is confined to the powerful. We should also take note that the luxuries of the past are radically different from what we consider luxuries in advanced capitalist economies today. Today, what many of us would consider to be necessities or ordinary commodities would have been incredible luxuries to people living even 100 years ago.

Fifth, for most of our period - at least in Europe - we are talking about a world governed largely by the dictates of the Catholic Church and to a considerable extent, the Holy Roman Empire (often in competition). Originally, Christianity was a small persecuted offshoot of Judaism in the Roman Empire but over time successive Popes consolidated the power of the Church - mainly through force and crusades against other religions (mainly Islam but also other 'pagan' belief systems) but also through missionary work and conversion. So, for most of our period, we are not in a world of science or the scientific method - and what science happens to take place is closely watched by the Church. The punishment for disobeying/heresy was torture and typically a gruesome death. Not sure how that squares with the teachings of Jesus - but it made an immense difference in consolidating the 'earthly' power of the Church. The Church is the sole interpreter of the 'holy scripture' and because most people can't read (low rates of literacy) they have massive power to control the population - after all, the Church corners the exclusive rights on the 'afterlife' and since life is so shitty at this time, Heaven sounds like a good place to go when you die. The Protestant Reformation of the 16th century challenges the exclusive right of the Catholic Church to determine Christian 'truth' and wars ensue to protect

different power centres with different versions of Christian 'truth'. Over time, the scientific method starts to prove that many of the cherished beliefs of the Church are patently false. Of course everything remains tainted by religion during this period (and even up to present day), but the real breakthrough is the scientific method which starts to cut through religious dogma/superstition.

Sixth - we should note that 'business' at this time is looked down upon by those in authority. True virtue comes from being of noble blood - which means you or your ancestors come from a group of people who fought valiantly in wars of conquest.

Seventh - differences in human beings - their phenotypes - are understood as differences originating in climate, religion, customs, and language. There is no 'scientific racism' as of yet (this comes in the latter half of the 19th century - mainly after Darwin and reinforced by Western colonization). In the West, this largely has to do with a Christian understanding that all humans are the product/children of God - so we have a universalism amidst the particularities of different cultures. The aim of the Church, of course, is to convert these differences into a uniformity - to have everyone believe in Christ as the one true God. As one can imagine, atrocities ensue - particularly during the transatlantic slave trade and the conquest of the Americas.

Eight - intellectuals start to uncover classical Greek and Roman thought during the 17th century and combined with rapid changes on the ground such as the English, American, French and Haitian Revolution - we start to get new political theories. These are not quite political economies - though they will influence later thought on power and production. So for example, Hobbes (writing in England during the English Civil War of 1642-1651) argues for absolute sovereignty - or that one man should have the power to rule over everyone to guarantee security in the realm. Locke, for his part, in the *Two Treatises of Government*, argues for limited government and for a new understanding of property as exclusive private property. But we also start to see the incipient emergence of classical political economy with the work of Boisguillebert (1646-1714), William Petty (1623-1687) and the Physiocrats (1694 up to Adam Smith).

Ninth - the main type of economic thinking - that classical political economy will largely react against, was mercantilism, which we can say originates around 1492 with the conquest of the 'New World' by Columbus and successive merchant fleets.

'Mercantilism was a political movement and an economic theory that advocated the use of the state's military power to ensure local markets and supply sources were protected. Tariffs could be used to encourage exports (meaning more money comes into the country) and discourage imports (sending wealth abroad). In other words a positive balance of trade ought to be maintained, with a surplus of exports. The term mercantilism was not in fact coined until the late 1763 by Victor de Riqueti, marquis de Mirabeau and popularised by Adam Smith, who vigorously opposed its ideas.'

Tenth - and importantly, the 'market' does not play an important role in peoples' lives during this period. While markets are certainly around, most people are not dependent on them for their survival and social reproduction.

¹ <http://www.xtimeline.com/evt/view.aspx?id=46400>

Textbox quotes are from: <http://www.marxists.org/archive/pilling/works/capital/geoff1.htm>

Eleventh - during our period we also see the gradual monetization of trade and transactions, but money is varied (shells, beads, gold, silver etc) and money transactions are by no means the historical norm at this point. Most people live in gift and barter economies or provide for themselves through their own labour or the confiscation of the labour power of others in relations of domination.

Twelfth - trade and travel are very risky ventures at this time and the transport and communication infrastructure is very poor and largely dependent on human, animal and wind power. We really only get change once coal comes online as a primary fuel source and Britain (and later the US and Europe) start to escape the clutches of an organic energy source (mostly wood/charcoal) and economy. Time, in our period, is slow moving, the world is very dark at night (no electricity), and tied to seasons rather than to the seconds and minutes of the capitalist work clock used to discipline workers during industrialization.

So this is really just a sketch of some of the major events/happenings that lead up to classical political economy. Actual history is indeed more complex, but I hope the overview is helpful and I hope it helps us to distinguish what's new and interesting about the classical political economists. At the end of the day, and despite their difference, they will realize that something entirely new is afoot: the emergence of a market economy.