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Editor’s Note

It is with great pleasure that we bring to you Volume XV of Oeconomicus for the 2015-2016 academic year. After a year hiatus, Oeconomicus—the all-student publication of the University of Missouri-Kansas City—returns with a new edition. Within, our readers will find fresh new ideas from our four contributors this year and an interview with Richard Wolff, a leading Marxist economist in the United States.

I would like to thank everyone that made this current edition possible. First I would like to thank, our contributors: Mila Malyshava, Jonathan Ramse, Zhuo Fu Chen, and Anthony Eisenbarth for their thoughtful contributions. My sincerest thanks go to Dr. Richard Wolff for generously offering his time for an interview for the current edition, and Dr. Erik Olsen for his efforts in making that interview a reality. Finally, I would like to thank Dr. Ben Young whose continual support helped ensure this edition came to fruition.

I hope you all enjoy reading these articles as much as I did! Finally be sure to read the announcements at the end of this journal to learn how you can make a contribution to future publications of Oeconomicus.

The editors:

Dr. Ben Young
&
Jacob Powell
One Step Forward, Two Steps Back:
An Institutional Analysis of the Post-Soviet Transition

By: Mila Malyshava
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Introduction
The republic of Belarus has experienced several stages of transition after the collapse of the Soviet Union. The first stage was characterized by an attempt to shift away from the soviet production techniques, experimenting with practices drawn from the West. The temporary parliament of 1990-1994 implemented a series of market reforms during the first years of Belarusian independence. However, the market reforms generated disappointing results which were further compounded by a general social discontent. These unsatisfactory results animated the revival of central planning and state control over distribution of goods. This reemergence of the state distinguishes a second stage of the post-soviet transition. The values of totalitarianism have remained strong for almost two decades despite the efforts in economic and political transformation and a general trend of capitalist development among neighboring countries.

This inquiry seeks to provide an institutional analysis of the post-soviet transition in Belarus. It demonstrates that an absence of a thorough institutional inquiry drove the failure of market reforms. The results of market policies only further consolidated the old soviet institutional structure, momentarily relieving some of the havoc spurred by market reforms. While returning to the old methods of production and management improved the economic
climate of the country temporarily, preservation of soviet techniques restricted the dynamic technological\textsuperscript{1} nature of the production mechanism.

The first part of the inquiry provides a brief overview of the main policies implemented during the capitalization process. Then, drawing on J. Fagg Foster’s principal of institutional adjustment and John Dewey’s analysis of habits, this inquiry offers a critical analysis of the aforementioned reforms. The second section considers the transition back to the soviet mode of production, seeking to establish that the preservation of soviet traditions has guided the Belarusian economy towards an unproductive and damaging path-dependence. This path-dependence has contributed to retarding the process of cumulative causation and capped the influx to the joint stock of knowledge, both of which remain crucial for progressive institutional change.

\textit{Market Reforms}

The beginning of the 1990’s appeared as a great turning point in Belarusian history. The fall of the USSR meant official Belarusian independence and an autonomous mode of development. Stanislav Shushkevich became the Chairman of the Supreme Soviet– a temporary governmental structure– until the first presidential elections in 1994. Economic activity was one of the main concerns for the new-born independent country (Savchenko.2002:234). There existed a need for a new economic system, one that would eliminate the existing economic distortions, productively allocate resources, and improve the living standards of the Belarusian population. But most importantly, there was a general yearning for a socio-political change

\footnote{In the context of this paper technology is defined as and interchangeably used with a joint stock of knowledge}
towards a more transparent environment, an environment that was still foreign to old soviet traditions.

The consensus of the Supreme Soviet was to focus on: de-etatization of state property, decentralization, economic freedom for producers, a single tax policy, new principles of national budgeting, a new banking system, and reconstruction of trade controls. Shock therapy calling for vast privatization served as the primary policy tool and was adopted as the first major step in transitioning to a market economy. Nevertheless, the rapidness of the new economic policies retained a modest character (Bogdankiewicz.1993:337).

The legal framework in existence by 1993 made it possible for privatization of both large-scale and small-scale enterprises. The development of privatization reforms did not, however, imply governmental control over the adjustment process. The Ministry of State Property and Privatization (MSPP) of the republic of Belarus— the executive institution responsible for market policies— was given great freedom in decision-making: the MSPP functioned independently of political institutions. When considering the percentage share of total income contributed by private Belarusian businesses by 1994, a mere 15% of GNP (EBRD dataset), it becomes clear that the market reforms did indeed move sluggishly. Furthermore, privatization of large factories was never accomplished. Interestingly, large-scale enterprises had the highest potential since those were the most efficient manufacturing and assembling factories.

This attempt of a transition to the capitalist mode of development was also associated with increased employment rates in cooperative and privately owned joint-stock companies; while there was a sharp increase in unemployment rates for the state sector. This spike in unemployment was caused by the reconstruction of administrative institutions (or rather their elimination) and bankruptcy of massive state enterprises associated with the institutional crisis
In addition, rapid growth of consumption, rising inflation, and low levels of gross investment prevented the needed expansionary policy to promote basic capital reproduction and its technological renovation. Further compounding this problem was a need for reconstructing the military which occupied a significant role in the industrial sector for soviet Belarus. However, the program for a military changeover was not devised yet.

The year of 1991 marked the beginning of the post-soviet economic crisis which was especially noticeable in Belarus due to consistent economic growth from 1982-1990. Market shock therapy lowered economic growth rates which were characterized by occasional fluctuations with a general tendency of decreasing GDP (EBRD dataset). These aspects also spurred confusion in market relations since production was no longer dictated by the state and the system for distribution of material resources had been dismantled; yet, the state diminished its role before establishing alternative mechanisms.

The disappointing results induced a number of contra-arguments on the suitability of the chosen tactics for the economic transition as well as a general public discontent with the economic downturn. The idea of market reforms in Belarus takes its roots in the neoclassical model of economic theory and its view on the efficiency of property rights. This ideology, in turn, legitimized the shock privatization. As Thorstein Veblen points out in his *Business Enterprise,* “the spiritual ground of business enterprise is given by the institution of ownership” (Veblen.1904:37). While on the contrary, the dominant rights system with its state-owned enterprises was considered an inefficient model mainly due to a principal agent problem caused by asymmetric information.

However, the efficiency of the “invisible hand” or the “Walrasian auctioneer” meant handing control of the previously command driven system to the workings of free markets which
choose the most fit agents within the economy. This idea of market distribution was appalling to the soviet mentality which was used to viewing the state authority as the ultimate troubleshooter. The command system, however, guaranteed the social equality of economic agents while ensuring the dominance of the political power held by government elites. One can relate Hyman Minsky’s idea on the usefulness of markets in relation to this issue when he states:

*The market mechanism is a good enough device for making social decisions about unimportant matters such as the mix of colors in the production of frocks, the length of the skirts, or the flavors of ice cream, it cannot and it should not be relied upon for important big matters such as the distribution of income, the maintenance of economic stability, the capital development of the economy and the education and training of the young* (Minsky.1986:101).

Crude implementation of the market reforms served a clear ceremonial function in bringing the Belarusian nation away from the socialist mentality: it served as an attempt to corrupt the existing set of ceremonial values. It came as no surprise that the liberalist Supreme Soviet decided to continue market shock therapy. The belief was that eventually market reform would generate more satisfying results, more closely paralleling the observed apparent efficiency of the capitalist mode of production in the West. However, the Belarusian parliament failed to consider the fact that Belarus did not have a proper institutional setting for such abrupt changes. Furthermore, there was no instrumental inquiry into how best to coordinate the process of implementing market policies (i.e. introducing technological innovations) within the existing institutional structure. In fact, state institutions of the soviet type were eradicated as a dark footprint of soviet deficiency.

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2 It was the majority of the liberals in the Supreme Soviet as opposed to the conservative representatives
Ultimately, the market reforms were implemented in a very spontaneous fashion. The Supreme Soviet did not initiate any specific political power arrangements to provide economic security and reduce transaction costs for newly privatized businesses, nor did they design the property rights system in accordance with the institutional structure at the time. The results indicated that there existed a clear conflict of instrumental vs. ceremonial functions between the institutions of the two systems, which was not solicitously considered in regards to policy implementation.

*Institutional Grounds*

The coercion of new technology in the form of market practices was foreign to the eloquently-developed and ingrained soviet mentality (i.e. soviet habits). This alienation led to social conflict as a result of problems with the existing institutional structure. Institutional structures characterize the habits of use and want that allow people to act and respond with a high degree of confidence in their expectations (Neale.1987:1180). Habits, according to Dewey, are “a kind of human activity which are influenced by prior activity and hence, are acquired” (Dewey1922:31). Institutions give continuity to actions and assure that each action suits the actions of other people to maintain the ongoing process. This implies systematization of minor elements of action, which remains projective and dynamic in quality (Dewey.1922:31). Society, in turn, exists as a set of institutional systems, which are based on a set of socially prescribed patterns of behavior or habits (Bush.1987:127). This implies a concatenation of individuals and the social system, an interconnectedness that necessitates consideration while examining the phenomenon of institutional change.

Overcoming the soviet mentality appeared to be the biggest obstacle despite the fatigue from soviet control and a general expectation of change prevailing in Belarusian society.
In studying any social and hence, institutional change, it remains important to remember that adjusting habits requires cooperation between the organism and the environment. It is impossible to change habits directly; rather, change requires an “indirect modification of conditions, intelligent selecting and weighting of the objects which engage attention and which influence the fulfillment of desires” (Dewey.1922:19). More generally, habit formation exists as the mechanism which internalizes socially prescribed behavior. A successful adaption of new habits requires a relatively mechanized and unaccustomed set of actions, both of which were lacking in Belarusian society. These actions cannot relate to a previous order of things; rather, these actions should exist as their complete opposite. An executor of such actions should act upon them automatically, without being involved in any evaluation processes. To force one to stop thinking about the old habits, the new unaccustomed actions must be different from the original ones. Otherwise it becomes likely that the actor will fall back into the old state of habits. And, the market reforms were implemented as crude instruments with the main purpose of eradicating the soviet system and to fully deracinate the soviet mentality. This, in accordance with Dewey, was a fatal failure in attempting to change the soviet habits; since this particular action was not disconnected from the past ones, it continuously elicited previously established habits from the socialist system.

This brings us to the idea that any change should include two types of behavior consistent with the Veblenian dichotomy—instrumental and ceremonial behaviors. Instrumental behavior is an internal behavior that results from warranted scientific inquiry. It requires continuous technological development and accumulation of tools that fit a given set of skills in order to prolong the life process: instrumental behavior remains technological in nature and serves a productive purpose. Ceremonial behavior is conditioned by tradition and acquired externally
from social interactions; it associates with pecuniary gain and promotes invidious distinction. Thus, the transition to market policies ignored the significant impact of ceremonial behavior; rather it focused solely on blind imitation of instrumental behavior borrowed from other nations developed under a different set of institutions.

In analyzing a social conflict deriving from institutional arrangements, it becomes important to distinguish the values that form these types of behavior. These values serve as pivots which coordinate said behaviors. In accordance with Bush’s scheme for analyzing ceremonially vs. instrumentally warranted patterns, the set of values have to be targeted in order to restructure the institutional system. Instrumental values are a subject to a dynamic change as the state of knowledge changes and new technologies are discovered (a new set of economic policies in the context of this paper). Ceremonial values are accepted on authority and, according to Ayres, serve mainly to prevent change (Ayres.1961b:103). Moreover, it remains impossible to directly change behaviors by enforcing new technology. Technology drives institutional change, but it affects the behavior of institutions, not their values. Conversely, ceremonial dominance determines the degree of tolerability for a certain type of behavior given the existing institutional system.

The market reforms in Belarus indicate that the degree of past-binding ceremonial dominance was overlooked in favor of focusing solely on the efficient instrumental feasibility. Only evaluation of both feasibility standards can anticipate change within an institutional space. This is because ceremonial habit is part of the social fabric and as such requires attention when seeking recognized interdependence and locating the bounds of minimal dislocation. This change, if accomplished, functions in accordance with the principles of institutional adjustment (PIA) as put forth by Foster. The principle of technological determination suggests that an
institutional structure must coincide with the instrumental capabilities of the system. Technological determination provides us with a new set of available behaviors. The principle of recognized interdependence reinforces the idea that a new type of behavior has to be directed and mechanized since it only becomes habitual through repetition. Foster emphasizes that “conceptual apprehension precedes the course of action differentiating the new pattern from the old” (Foster.1948/1981:933). Finally, the principal of minimal dislocation defines the limits of the adjustment process and states that any modifications have to be approved by the existing institutional structure. If they are not, then society can eliminate changed patterns inappropriate to the problem-solving process.

While the Supreme Soviet in collaboration with the MSPP committee provided the “data” required by the first PIA, it failed to coordinate the “instrumental functions at a level of efficiency tolerable to the members of the institution” (Foster.1948/1981:935). The second principle was violated because there was no plan of corresponding renovation of the economic sector based on the new policies. The reforms were abrupt and chaotic, which could not provide the required level of mechanization. Most importantly, the market reforms failed to selectively target only those factors that were considered problematic to the society which clashed with the ceremonial dominance of the soviet habits.

Market Socialism

Spontaneity of the market reforms and ignorance towards the postulates of institutional adjustment caused the Belarusian society to reverse course back to the soviet mode of production. The summer of 1994 dispelled all economic doubts about the efficiency of market reforms when the republic of Belarus elected its first (and to date only) president Aleksandr Lukashenko. Lukashenko directed the nation back to the old soviet track in an attempt to solve
the ongoing social conflict. In 1995 Lukashenko adopted a new route of economic development—so called market socialism, which marked a second stage of the post-soviet transition.

Central planning became the dominant and driving force of economic activity once again. Administrative controls over prices and exchange rates were imposed in response to the rapid inflation and currency depreciation caused by market reforms. The majority of factories and services remained under the control of national ministries. Various types of tight policies were applied to businesses by local and central governments: regulatory changes, copious inspections, and prohibition of practices that were legal during 1991-1994 (Savchenko.2002:238). Elimination of shock therapy was implemented in attempt to improve growth rates, lower the structural unemployment differential between the “private” sector and the state-owned enterprises, and to prevent the emergence of an oligarchy class. Resulting from distortions in income distribution, Belarusian society did not favor of market redistributive practices; rather, they preferred reciprocal practices of the soviet economic system.

Although the transition to market socialism caused substantial criticism from the zealous advocates of market practices, the early actions of Lukashenko’s government managed to suppress the social conflict instigated by the ceremonial dominance and temporarily improved a number of economic factors such as GDP per capita, unemployment and inflation rates (EBRD dataset). These soviet behavioral patterns were instrumentally feasible and permitted by the ceremonial needs of the existing institutions and not surprisingly so given that there was no technological inflow. New technology does not only provide solutions to institutional problems, but, in fact, is responsible for creating the problems. Technological change requires alterations in

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3 A small wealthy class that emerged after vast privatization reforms in Russia during the early 1990’s
behavior (through the value system) and thought. This change creates new problems for society which needs to adjust accordingly. There were no problems created as there was no knowledge expansion and hence, no need for the adjustment process per se.

But what makes authorities stifle the development of technological innovations? An authoritarian government puts an effort into suppressing the knowledge inflow to a given stock of knowledge because this will consequently require an institutional adjustment, lowering ceremonial dominance, which will diminish the degree of authority. Hence, ceremonial encapsulation deprives the community of higher levels of instrumental efficiency. Such conservation of soviet habits conforms to Dewey’s idea that force only suffices to return a previous order of things and to restore familiar behavioral patterns, it does not bring change (Sturgeon).

Ayres realized that in communities like Trobriand society, ceremonial practices are perceived as a source of instrumental efficiency, while ceremony warranted patterns suppress technological growth (Ayres.1944a:180-190). In this, ceremonial dominance remains an imitation of technological efficiency via ceremonial encapsulation of instrumental behavioral patterns. Increasing the degree of ceremonial encapsulation, in turn, displaces instrumentally warranted behaviors and leads to regressive adjustments in institutions. However, unlike the Trobriand society, where ceremonial dominance was rationalized through magic, the totalitarian system in Belarus uses ideology in order maintain soviet ceremonial dominance as the main instrument for holding a high degree of political authority even when the living standards slowly depreciate.

The government authorities present stagnating economic and social conditions as desired stability through the use of education and media. Education and media primarily function as a
source of ideological propaganda, directing the asserted process of economic growth and eliminating undesirable pluralist thought through blocking the outside information flow. Absorption and diffusion of new knowledge can only occur if society thinks it can be accepted by ceremonial dominance. As Bush notices “knowledge that cannot be reconciled with the need to justify existing patterns of status, power, and other forms of invidious distinctions would not be intentionally sanctioned” (Bush.1987:141).

This, however, does not mean that it is impossible to improve the institutional organization of society in a way that will promote dynamic technological changes. The key is for every individual to have the ability to non-invidiously participate in modifying the existing institutional structure. Tool affirms that “so long as democratic means of deliberation and social action are available, the community is prompted to continue its experimentation with alternative institutional forms until the most efficient options, on present warranted knowledge, are chosen” (Tool.2000:103). This means that a democracy is needed as it functions as the only organization of a community that does not promote ceremonial judgments, preventing proper adjustments desired by the community.

CONCLUSION

Belarus exists as yet another example of a post-soviet transition economy where adequate changes of institutional adjustment need to take place in order to start drifting away from the soviet mode of behavior and thought. This inquiry demonstrates that a vague understanding of the market system, dysfunctional institutions under the new regime, and ignorance towards the principles of institutional adjustment caused the Belarusian society to repudiate the market-oriented development and indirectly instigated the soviet path-dependence. This, in turn, stifled
technological growth as a dynamic process of cumulative causation which can only be fixed within a more democratic environment.
REFERENCES


Kropotkin’s Method

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Introduction

Kropotkin's method of analysis is a unique approach looking at social relations, and in particular at the provisioning process. Generally, his method can be described as looking for evidence of the future in the present. Kropotkin's evolutionary framework, most clearly presented in his book *Mutual Aid*, puts cooperation, rather than competition, within a species as the prevailing aspect of the evolutionary process. In his study of both humans and non-human species, he sought to find evidence of the underlying tendencies that would evolve into more central aspects of group behavior. This inquiry into how cooperation aids the development and survival of human groups provides a glimpse of the future being born in the very fabric of social relations of common people. Kropotkin's analysis sees the future being born of the lives of ordinary humans, through cooperation and mutual problem solving.

De-growth is a movement in our own age that exemplifies Kropotkin’s method. The movement shows how ordinary groups of people in various places around the world can work together without the direction or encouragement from government or other elites in the social hierarchy. In the context of a 'history of economic thought' one could understand Kropotkin's approach as the history of economics from the perspective of common folk.

Background

Peter Kropotkin was born in what may seem an unlikely setting knowing what his life later became. Born into a mix of an aristocratic and royal lineage, he grew up privileged and with a wealth of opportunity. As a teenager, Kropotkin served as a page for Tsar Alexander II where
he most likely developed his interest in politics and the study of society (Cornford, 2011). Kropotkin then continued on in the army and volunteered to work in a new post in Siberia. His first assignment was to conduct a survey of the prison system. His findings were critical of the exile system and were ignored. This experience of his superiors ignoring the reality of conditions in Siberia brought Kropotkin to a state of disillusionment. He then offered his services to positions that would take him to some of the most remote places in Russia. This position provided a means for him to travel extensively and document the geography and animal life of those regions. His travel into the eastern reaches of Russia into Siberia were instrumental in shaping his disillusionment with the authority of the state and lead him to resign from his military post. Kropotkin continued his work as a geographer for the Russian Geographical Society and was sent to study the glacial drift in the Baltic, spending most of his time in Finland. During his time in Finland he decided to follow the way of 'Narodnik' or the way of folk people (Ibid). His intentionality to identify himself with common people shaped his life and his thoughts in a profound way.

The following years were dramatic and exceptionally difficult, but Kropotkin persisted and continued his writing and struggle against the established order. He was imprisoned twice, once in Russia and once in France. He traveled through Western Europe and North America collaborating with and raising support for an anarchist social revolution. His support of the Allies in the First World War isolated him from his anarchist community, but Kropotkin had long predicted a war instigated by the rise of Germany and continued to oppose Germany's nationalism and strong central authority. Finally, after the October Revolution in 1917, Kropotkin was able to return to his homeland. Once in Russia Kropotkin took a critical stance toward the Bolshevik regime and opposed its centralized form of governance. He supported a
federalist direction for Russia and thought that individual localities should organize their own industrial and agricultural reconstruction without the aid of a central government (Ibid). While he supported the idea of Soviet, or workers’ and peasants’, councils he thought the Bolsheviks submitted the people to a dictatorship of the party and the common people lost any voice at all. While many within the anarchist movement were censured and suppressed, Kropotkin continued to voice his opinions without the recourse of the Bolshevik authorities.

Another important historic event that shaped the anarchist movement and later Kropotkin’s work was the founding of the International Workingmen’s Association in 1864. This gathering, known as the first International, is often associated with Marxists but was in fact a gathering of trade unionist from both Britain and France. Among those who were there, the Blanquists and the Marxists supported a position of a strong centralized state, while others there suggested a federalist position where communities would have a level of autonomy and freedom. Kropotkin, while not there himself, describes the General Council as domineering and authoritative.

Marx and Engels were its leading spirits. It soon appeared, however, that the mere fact of having such a central body became a source of substantial inconvenience. The general council was not satisfied with playing the part of a correspondence bureau; it strove to govern the movement, to approve or to censure the action of the local federations and sections, and even of individual members (Kropotkin, Memoirs of a Revolutionist, 1899, p. 130).

The effective take-over of the gathering by the centralists left the federalist isolated and resulted in the creation of a separate conference organized by Michael Bakunin in the Jura Federation in Switzerland. This new association of workers was made up of a contingent from Spain, France, Italy and Switzerland. While there were many ideas and views that the centralists and federalists held in common, the manner in which the General Council dominated the gathering soured the relationship considerably. It was under this context that Kropotkin was introduced to the section
of the International Workingman’s Association in the Jura Federation. While there he became an anarchist.

Evolution and cooperation

Kropotkin’s early studies of animal life in Siberia provided a building block form which he later shaped into his social theory. He can be understood as a scientist turned social theorist. His book *Mutual Aid: A Factor of Evolution* provides the basis of his evolutionary theory. Written during a time when considerable attention was being given to social Darwinism, Kropotkin’s concepts provide an alternative view that emphasizes the cooperation within species rather than competition. In his travels to the large expanse of land in eastern Russia he observed several different species, from ants and bees to wolves and birds.

Kropotkin describes in detail the social tendencies of many different species, many of these were his own observations and many were from the writings of other naturalists and zoologists of his time. Numerous birds are describes as having very complex social structures that demonstrate cooperation. The complexity by which insects such as bees and ants cooperate is a powerful example of the way mutual aid has evolved and contributed to the development and survival of the species. White tailed eagles in the eastern steppe of Russia on first appearance seem to be solitary creatures, but when they attack or feed on dead animals they form a group to work together and then take turns keeping guard while others feed. Marmots, a type of rodent, provide another example of how mutual aid has been an important aspect of the evolutionary process. As a terrible nuisance to the farming community, these animals have developed a high level of individual and social intelligence to defend themselves from capture. An interesting observation is that once captured, the individual characteristic of fighting for survival becomes
quite dominant; however, when observed outside of captivity and in the freedom of nature it is the social and cooperative tendencies that dominate. Kropotkin goes on to describe numerous different species and the dominance of their social nature over their competitive tendencies. Kropotkin states it frankly “[t]hat life in societies is the most powerful weapon in the struggle for life” (Kropotkin, Mutual Aid: A Factor of Evoution, 1902, p. 32). While individual characteristics may benefit the survival of individuals or species in certain specific contexts, the cooperative behavior that has both biologically and socially evolved is the primary manner in which species attain the most benefit.

After describing the complexity of cooperative behavior in animal life, Kropotkin goes on to describe the cooperative behavior found in early human life. From the ‘savage’ and ‘primitive clans’ to the ’Barbarian society’, human cooperative behavior evolved. A key insight of human cooperation is the change from common law to written law. The formalization of social conduct and behavior has had mixed effects. Early common law allowed for free forms of cooperative behavior while later written law enforced and mandated certain cooperative behavior that in many cases advantaged certain segments of the group. The aspect of common law continues under the surface of attention, however as Kropotkin describes in the medieval guild the autonomous ways that human cooperation continues to be an important part of social development. His description of spontaneous cooperation, from the way in which captains and common deckhands on ships work together as well as create rules and plans to deal with conflict, reflect the ability of humans of cooperate even when they are not forced. Many different kinds of guilds, such as guilds for fishermen, traders, teachers and artists, in medieval society formed because of mutual interest in cooperation.
William Dugger (1984) points out that in Kropotkin’s theory of evolution, human nature is shaped by both selfish tendencies and altruistic tendencies. The paradox of these tendencies is an important aspect to his understanding of social theory and evolution. The selfish tendencies of “slave-hunters, the ivory robbers and fighting kings” make their mark on history with blood and statues, but the altruistic and cooperative tendencies of the common man make their mark through the evolutionary process and community progress. Kropotkin viewed centralized government as the hampering of the natural and spontaneous tendencies of cooperation in groups.

For Kropotkin, while a certain few maintain control over the centralized State, mutual aid—which was best characterized by the medieval city state—continues to flourish beneath the surface of the centralized power structures. The cooperative behavior of smaller groups is what keeps society together, not a centralized State. It is within these smaller groups that the paradox between individual autonomy and group cooperative behavior lies. Just as Kropotkin describes how cooperation is a key to the evolution of the human species, he also emphasis the freedom each person should have over the rule of his or her life.

Centralized power in the State is understood from Kropotkin’s view as impeding in the individual liberties of smaller groups, such as guilds of the medieval city or of the small village communities. Like the manner in which the marmot switched to the fighting instinct when held in captivity but carried on in a cooperative and constructive manner when left free in nature, humans likewise exercise a highly complex and elaborate form of cooperative behavior when given their own autonomy. But, like the marmot, when forced and coerced into submission by centralized power authority those forms of natural cooperative behavior breakdown.

It is only today that the ideal of a society where each governs himself according to his own will (which is evidently a result of the social influences borne by each) is
affirmed in its economic, political and moral aspects at one and the same time, and that this ideal presents itself based on the necessity of communism, imposed on our modern societies by the eminently social character of our present production (Kropotkin, Kropotkin’s Revolutionary Pamphlets, 1927, p. 124).

Kropotkin’s method is about a “multitude of varied forces and influence of every kind, following their own course” (Ibid) where progress is achieved by the counterbalancing of the individuals who make up the whole. Evolution occurs through the struggle between mutual aid and competitive conflict. While Kropotkin’s method and views of society are often dismissed as being utopian idealism, his method primarily looks for evidence of how the future was being shaped in the present. Kropotkin puts it this way:

an analysis of tendencies of an evolution that is already going on in society, and on inductions therefrom as to the future – those tendencies which have been, as we saw, for thousands of year the mainspring for the growth of sociable habits and customs, known in science under the name of customary law, and which affirm themselves more and definitely in modern science (Kropotkin, The Essential Kropotkin, 1975, p. 66).

In other words, his study focused on enduring tendencies in group behavior that have begun to emerge in new and creative ways among common people and their interactions.

Local knowledge

Kropotkin valued ‘common knowledge’ over ‘specialized knowledge.’ In his memoirs, he states:

[knowledge is an immense power. Man must know. But we already know much! What if that knowledge – and only that – should become the possession of all? Would not science itself progress in leaps, and cause mankind to make strides in production, invention, and social creation, of which we are hardly in condition now to measure the speed? (Kropotkin, Memoirs of a Revolutionist, 1899, p. 113).

Kropotkin emphasized the knowledge of the common people and the sharing of that common knowledge equally. In An Appeal to the Young Kropotkin advocates to the scientists that rather than accumulating new knowledge that the knowledge already attained be integrated into
people’s daily lives and become a “common inheritance” (Kropotkin, The Essential Kropotkin, 1975, p. 13). To the engineers he promotes a similar tone; that rather than new inventions, their efforts should be toward making the current machines benefit the common worker. Knowledge is seen as only as good as how it is being used in the life of common people. Here Kropotkin ties knowledge and equity.

Kropotkin’s concept of knowledge is also characterized by adaptation. Its origin is from the creative activity of the people free of coercion and external control (Ibid, p.59). The organic and spontaneous nature of this knowledge is thus contingent to the context where it developed. As these contexts vary from place to place and group to group there develops a plurality of ways in which societies organize themselves and solve problems. Kropotkin’s method emphasizes plurality and contextual analysis rather than grand universal theories. While there may be universal, or near universal, tendencies in human evolution, these work themselves out in many ways in the daily lives of people in different places.

The way in which Kropotkin understands local knowledge puts many of the conventional theories of provisioning, through an extended division of labor, in contrast with a new and better way he proposes in Fields, Factories and Workshops. Kropotkin says that “[p]rogress must be looked for in another direction. It is in producing for home use” (Kropotkin, Fields, Factories and Workshops Tomorrow, 1974, p. 39). Rather than spending time creating elaborate and complex trade and specialization systems, we should rather bolster our energy solving the domestic issues of provisioning. In the 1974 version of the book, retitled Fields, Factories and Workshops Tomorrow, the editor Colin Ward adds insights from E.F. Schumacher in relation to this topic as well. Schumacher suggests three ways in which the condition for poor countries can be enhanced. First, he suggests that people should work where they are already. There is a tendency
for urban migration under the typical hyper-specialization mode of production employed in modern economies. People in rural areas need to be able to stay in rural areas. Second, the industries that are created in the various communities of a country need to be simple and effective. There is no need for highly specialized and technical buildings or equipment that requires import or a high degree of financed capital. Third, the method of production should be relatively simple. From the supply chain and financing to the process of production and advertising, the method should decrease the need for highly specialized training (Ibid, p.45)

In the area of agriculture, Kropotkin suggests that a smaller scale and more localized system would benefit the community the most. While at the turn of the 20th century farms were not nearly as large as they are today, Kropotkin refers to them as ‘Bonanza farms’ worked by a highly regimented group of workers (Ibid, p.104). While these early factory farms may produce more per worker, the produce is smaller and damaging to the soil. Today, in 2014, Kropotkin’s arguments against factory farms are even more critical. The alternative to factory farming is through the practice of smaller scale organic farming. Kropotkin suggests that the techniques used in home gardens could be scaled to the amount to feed the people of a community. This method of agriculture would maintain local production and consumption, but also allow for the community to grow their grains and produce as well as raise livestock collectivity. The knowledge by which the agriculture is carried out is primarily the local knowledge that has been passed down in that locality from generation to generation. Robert Chambers, a development practitioner who advocates for participatory development methods, complements Kropotkin’s argument for the use of local knowledge in the agriculture process. He points out that microenvironments are often overlooked by ‘development professional’ who come into a local context with numerous preconceived notions of ‘the right way to do it.’ Chambers advocates for
the use of local knowledge and techniques that are specifically designed for the

microenvironments that make up the agricultural land of a locality. Chambers says that:

    microenvironments demand quiet professional revolutions. These will start not
    with the lecturer but with the farm family, not just in the classroom but in the field
    too, not on the research station but in the microenvironments themselves. They
    will entail not simplifying and standardizing but enabling farm families to
    complicate and diversify (Chambers, p.60).

Chambers’ strategy for participatory development that is initiated by local knowledge is fitting

for Kropotkin’s method that emphasizes local knowledge.

    Another aspect of Kropotkin’s local knowledge is the way he advocates for the
integration of ‘brain work’ and ‘manual work.’ While there are significant ways in which the
integration of these two realms changes the nature of the education system, here we will focus on
the more general aspect of the community provision and the integration in the work place. He
advocates that the integration will make ‘complete human beings’ and that both the use of the
intellect and of the physical tasks undertaken develop people to their full capacity. In the case of
engineering, the current system that emphasizes a division of labor first establishes the designing
engineer, then a laborer assembles the machine according to the plan the engineer dictates. Here
the engineer has all the theoretical mathematical and physics concepts that will make the
machine function – but there is no consideration of how the machine will fit together or will how
it will function for the purposes needed by the community. The integration of brain work and
manual work will enable to the laborer to be the engineer and the engineer to be the laborer. The
design of the machine will take into consideration how it will be put together as well as for what
purpose it will serve the community.

    Local knowledge is not simplistic and remedial, but it may appear that way from the
perspective of the esteemed planners and scholars. Kropotkin’s view of knowledge supports the
perspectives of the common people in society and encourages the sharing of knowledge that
helps the most people in the community. Rather than ‘golden bullet’ solutions to problems anywhere and everywhere, local knowledge is diverse and contextually integrated. Each community faces a unique set of advantages and disadvantages, and thus there is unique knowledge that assists them in their growth and progress as a society.

**Kropotkin’s Method Today**

Understanding Kropotkin’s method as seeking out evidence of evolutionary developments that will flourish in the future, we now turn to a case where we can see mutual aid contributing to form new and innovative ways of organizing society and it’s provisioning in our day. The de-growth movement is social movement or revolution where ordinary people are organizing themselves spontaneously in opposition to the directives and goals established by current economic theory and prevailing political powers. While the term seems oxymoronic in conjunction with Kropotkin’s concept of evolutionary growth, it is non-the-less a complementary movement that demonstrates Kropotkin’s view that mutual aid among members in community will continue to be a dominant tendency through human biological and social evolution.

In *Farewell to Growth*, Serge Latouche (2009) describes *décroissance* (French for de-growth) as “a political slogan with theoretical implications” (p.7). De-growth is not a policy with the sole aim of negative economic growth. De-growth is a term that has up until now been primarily a critical commentary on the failures of a growth driven economy in a resource finite world. Latouche (2009) states that de-growth “is an absurd oxymoron, but it is a clear indication of the extent to which we are dominated by the imaginary of growth” (p.8). This term describes a social movement that aims to provoke the dominating theories and policies of mainstream economics that focus on growth and re-orient the manner in which communities organize themselves according to their contextual needs and aspirations.
While Kropotkin rejected the Malthusian argument of over-population, now—about two hundred years after he wrote—the human species faces new and incredibly serious risks in terms of maintaining resources and environmental balance. The de-growth movement’s ecological perspective provides arguments for why it is important to scale down and re-localize to reduce our destructive impact on the planet. There has been a large amount of literature on limits to growth and the ultimate resource constraint posed by an economic system that disregards the planet’s ability to regenerate resources. Beginning in the 1970s with the Club of Rome and the publishing of the book *Limits to Growth* in 1972, Ecological Economics has provided a large pool of literature on limits to growth and environmental dangers of a growth driven economic system. While the arguments being made from the ecological perspective are certainly valid and provide the bulk of attention highlighting the need for concern with our current condition of climate change, much of the discussion is dominated by technological solutions that largely ignore the realities of over-consumption (Norgard, 2013). Kropotkin’s method advocates for appropriate technology, not specialized and universal technological solutions while also advocating for systems that do not promote over-consumption by a select minority of the world while the majority of people remain in poverty.

Not more important than the ecological perspective of the de-growth movement, a more applicable aspect of the de-growth movement to Kropotkin’s method is its perspective of social equity. De-growth advocates for systems of provisioning that meet the social and material needs of the community rather than promote a strong GDP and robust stock market. The de-growth movement provokes the common idea that ‘more is always better.’ The poor are often enslaved to work seemingly endless days at low wages that merely serve to bolster the economic system that advances those that are already advantaged. De-growth advocates disconnecting from an
ideology of endless growth, and encourages the holistic development of humans. Much like the integration of manual and mental work, de-growth thinks that less formal work and more leisure in life will enhance the well-beings of communities. Leisure in this case is not simply sitting around doing nothing, but takes a broader perspective that includes volunteering and other activities that engage people in their local communities.

Another important aspect of the de-growth movement is the emphasis on experimentation. A leading de-growth leader in France, Vincent Liegey, encourages trying new possibilities:

Many people don’t define themselves as de-growth supporters but they share some values, by trying to organize free time in their agenda on a day-to-day basis, and to have another relation to work, another life rhythm. It is a matter of exploring the question in depth and to open up to other ‘possibles’ to get out of growth (Liegey, 2013).

Liegey’s book, co-authored by three others is called Un projet de Decroissance, Manifeste pour une Dotation Inconditionnelle d’Autonomie or in English ‘A Degrowth Project – Manifesto for an Unconditional Autonomy Allowance.’ While there is not an English translation as of yet, Liegey has given a number of English interviews where he has proposed the implementation of an Unconditional Autonomy Allowance (UAA) that guarantees each person within a country a certain standard of living. In an attempt to de-monetize society, the UAA would provide resource usage rights (such as water, electricity and land), access to public services such as transportation, education and healthcare, and also a subsidy paid in local currencies to cover basic costs of food and clothing. The combination of open-access, limited-access, local and national currencies may prove to promote the well-being of community better than the hyper-monetized and growth driven economic system. The UAA, along with many other experiments are being proposed by grass-root groups especially in Europe (Liegey, 2013). Latouche also emphasizes the importance
of experimentation with new innovative ideas, mainly in terms of ‘relocalization.’ New
economic institutions developed to promote local production and consumption will disrupt the
centralized manner in which many economies are currently designed. The experimentation and
problem-solving nature of this movement aligns well with Kropotkin’s emphasis on local
knowledge.

De-growth is a broad movement that overlaps with many different activities of groups of
people throughout the world. Small urban community gardening as well as larger community
supported agriculture programs, co-operative businesses, local currencies, barter markets, tool
libraries, and many other small scale solutions are springing up and exemplify the tendency for
mutual aid among humans. As alternatives to the capitalist-centralized view of economic
development many are advocating for projects such as Buen Vivir in Latin America, Ubuntu in
South Africa, and the Economy of Permanence in India (D’Alisa, Demaria, & Kallis, 2014).
While these projects and cases are not often discussed among the elite and powerful, they
exemplify what Kropotkin sought to explore in his studies.

Conclusion and Summary

Kropotkin is an often forgotten figure in the history of economic thought. His concepts
and method did not flow from the linage of figures like Smith, Ricardo and Marx. One could see
Kropotkin as a figure in the history of economics of the common folk. His method is unique and
refreshing in a day when it is clear that grand theories proposed by prominent economists have
simply not worked. Kropotkin’s life story is exceptional and telling of the way in which he lived
out what he believed. His experiences as a geographer and naturalist provide a helpful
perspective to understanding social theory and human behavior.
Kropotkin’s method is “a [voice] for today with a message for tomorrow” (Kropotkin, Fields, Factories and Workshops Tomorrow, 1974, p. 202). Mutual aid, as a dominant tendency in both biological and cultural evolution is a key contribution of what communities understand as progress and development. While the tendency towards competitive behavior is also present in the evolution of society, it is often destructive and expresses itself in the domineering by rulers and the powerful. Mutual aid is the tendency by which constructive community enhancement is achieved in the lives of common people. An emphasis on local knowledge over specialized knowledge is also an important aspect of his method. Local knowledge is contextual and diverse, while it seeks to help the lives of common people. Kropotkin describes how communities can shape their own forms of production and consumption through the localization of industry and agriculture.

Using Kropotkin’s method, the de-growth movement can be seen as the type of activity that demonstrates the tendency of mutual aid within human communities. The lives of the common people are important to the evolutionary process and provide a lens by which we can see the future development of the human species. The aspect of social equity that de-growth supports as well as the experimental characteristic fits especially well with Kropotkin’s method and the enduring tendencies of mutual aid.
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http://www.anarkismo.net/article/26978


Reimaging Sustainable Development:  
A Brief Comparative Analysis on Imperialism

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Introduction

Over the course of the past two centuries and into the new millennium, critical analysis of imperialism has been a feature of Marxism and development economics. The recent trend of globalization on the capitalistic mode of production has created a global force and allowed transnational corporations (TNCs) to exploit laborers from the developing countries to keep labor costs and wages down. The limiting of rights to minority groups has been able to break up the organizing of labor and help intimidate workers to accept lower wages and working condition due to competition in the labor market. The politics of “power and security” versus the concept of “interdependence and transnational relation” have dominated the developed world’s conception of global politics and economics for the past century. The objective of this paper is to examine the contending theories of Marxist imperialism and neo-colonialism. It will briefly examine the broad issues such as race and class struggle, ecological deterioration and its biophysical limits; gender and income inequality raised by the phenomena of dominance and dependence in the nature of economic relations. By doing so, the paper paves the groundwork for a further examination of potential economic policies that will provide liberty, equality, social justice, and solidarity for people in the globalized world.

Classical Marxist Theories of Imperialism

Karl Marx and Friedrich Engels stated in the Communist Manifest (1848):

[the history of all hitherto existing society is the history of class struggles. Freeman and slave, patrician and plebian, lord and serf... 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... ]
reconstitution of society at large, or in the common ruin of the contending classes (Tucker, 1978, 473-475)

When the developed countries sell its final goods above their value to competing countries this can be interpreted as capitalist imperialism⁴. Marx saw the areas of the outlying world as undeveloped until they were develop by capitalism (Tucker, 1978, Communist Manifesto).

Although Marx (1990) did not write much about imperialism but wrote extensively on how capitalism developed in Western Europe in *Das Capital: Volume I*. His analysis about dominate and subordinate defined capitalism in terms of the relation between a class of doubly free laborers and a class of capitalists (Marx, 1990, Part 8).

Marx (1990) in Chapter 26 of *Capital: Volume I* presents the framework to understand the accumulation of wealth for the bourgeoisies in Europe. The primitive accumulation refers to the essential methods employed by the bourgeoisies that brought the transition into a capitalist mode of production following the end of the feudal system. Marx highlighted that the historical process requires the capitalist class to divorce the producers from the means of production. Once the laborer is “doubly free”, in the double senses that they are free from the means of production and from slavery, the free laborers would have nothing to sell but their labor to meet their subsistence needs (Marx, 1990, 874).

Marx identified the central process and the secret behind primitive accumulation in Chapter 27. The expropriation of agricultural land and any form of wealth from the commoners were critical for the capitalist class. Since peasants were no longer subjected to the laws of feudalism towards the end of the 14th century, they were freed from their feudal lords and the land which

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⁴ There can be many definitions for imperialism, but in this context, it will be the conquest of other pre-capitalist nation-states by capitalist nation-states for external markets (unequal exchange) and the expansion of capital.
allowed them to assimilate into a new mode of production as a wage laborer. As a result, every freed proletariat had nothing to sell but their labor power.

Once the proletariat was freed from the feudal system, many flooded into the inner cities for employment. The wage laborers could not possibly be absorbed by the manufacturing sector as fast as they are thrown into exploitation. The integration process of this new mode of production created too much of a burden for the commoners to find alternative work. As a result, many people resorted to thievery and begging on the streets to meet their subsistence needs. Marx points out that the harsh legislation enforced in England and France made matters even worse. The government declared any individuals identified as vagabonds or rouges subject to the laws of the state if they were caught begging (Marx, 1990, 896-904). This forced wage laborers to actively look for work despite the wage level. Moreover, legislative measures taken in England such as dictating a maximum wage and no account of a minimum wage had kept working wages low while the cost of living rose for the working class (Marx, 1990, 901-904).

Marx (1990) noted in Chapter 29 of *Capital: Volume I* that the origin of the capitalist class in Europe comes from a group of farmers who owned great amount of land property. These land owners benefited from the surplus values made from the expropriated land they had acquired at practically no cost. At the same time the rapid fall of the value of steel and money forced wage laborers that were employed by the capitalist farmer to accept lower wages. As a result the capitalist farmers in England at the end of the 16th century accumulated enormous wealth given the circumstances of the time (Marx, 1990, 905-907).

Marx (1990) states in Chapter 30 that the British Agricultural Revolution has changed the social structure of England and the way people worked. When industrialization had provided the cheapest and most efficient machinery for agricultural product, it reduced the need
for farm laborers. The process has displaced the working class from the countryside to the inner cities. These farm workers were faced with the choice of selling their labor for a wage or becoming a capitalist themselves.

As the capitalist system grew, there was a need for cheaper and more readily available materials. Thus, the expanding into new territories, colonizing, and enslaving indigenous cultures have become sources of quick and easy capital for the capitalist class. The capitalist class also used famine and national debt as a tool to profit and mold the class structure. In 1769-1770, the capitalist class raised the price of rice in India to ensure that only the rich can afford it (Marx, 1990, 917). To turn unproductive money into capital, the industrial capitalist went into the lending and exchange business. They encouraged wage laborers to participate in the creation of debt. Marx points to the role of the public debt, the fiscal system in the capitalization of wealth and the expropriation of the masses as the prime source of misery (Marx, 1990, 919-926).

In *Capital: Volume I*, Chapter 32, Marx (1990) begins with the shift in the ownership of the means of production from the proletariat to the bourgeoisie. During this process of transference, private property was replaced by capitalist private property through the highest form of exploitation. The shift has caused workers to become wage laborers. Marx illustrates that as capitalism grows the number of wage laborers grows exponentially. Therefore, a revolution will arise resulting in the industrial capitalists being expropriated from their wealth by the majority. Marx (1990) stresses that the decease of capitalism does not necessarily mean the return to feudalism and private property, but the transformation will revert to the time where private property was seen as social property (927-930).

Marx discusses the principal of two kinds of private property in Chapter 33 (931). Marx identifies the first form as the labor of the producer himself. The second form is rested in
the capitalist’s exploitation of others (Marx, 1990, 931). In the industrialized countries of Western
Europe, this form is easily attained through the usage of legislative measures and private property.
However, capitalists constantly find obstacles in the colonies. For example, laborers in Australia
work for their own empowerment rather than that of the industrial capitalist because land is very
cheap and all men are free from slavery but not from the means of production (Marx, 1990, 932-
933). The capitalist can overcome this obstacle by using violence from the backing of the nation-
state. However, if domination over the workers’ free will cannot be achieved, how did capital and
wage-labor come into existence? Marx argued that this comes from the division of workers into
owners of capital and owners of labor in the colonies, which promotes and reinforces capitalism.

The key ingredient, internal competition between the classes, is the driving force that
propels capital accumulation and technical progress. Before the industrial revolution in Great
Britain, capitalism’s external economic relations were through merchant capital and did not
transform societies that were drawn to the global market. Karl Marx (1990) saw the development
of capitalism as stages of socio-institutional transformation and that capitalism does not need a
subordinated market in the colonies, though it will utilize and extract profit from it if it exists (Part
8). Once industrial capitalism became the dominate mode of production, capitalist could initiate
capitalist industrialization in other societies and this will become a brutal process.

Vladimir Lenin would further elaborate on imperialism by describing the function of
financial capital in creating profits from the European colonies, as the final stage of capitalism
development to ensure greater profits in the global market. In his book, “The Highest Stage of
Capitalism”, Lenin (1973) saw capitalism evolving into a higher stage from a free competitive
market to the monopoly stage of capitalism (105-106). He summarizes his definition of modern
imperialism with five essential features:
The concentration of production and capital developed to such a high stage that it created monopolies, which play a decisive role in economics life. The merging of bank capital with industrial capital, and the creation, on the basis of this “finance capital,” of a “financial oligarchy”. The export of capital, which has become extremely important, as distinguished from the export of commodities. The formation of international capitalist monopolies, which share the world among themselves. The territorial division of the whole world among the greatest capitalist powers is completed. (Lenin, 1973, 106)

The development of capitalism would lead to the formation of giant monopolies in Lenin’s analysis. The geographical constraint of the nation-state will limit the growth of industries and will be a catalyst for monopolies to seek out new sources of raw material, new outlets for investments, and new markets outside of their national boundaries. When the hegemons in the global economy carve up the world, market competition between nation-states will breakout into military competition. The constant struggle between nation-states to defend their national economic interest abroad will have a tendency for warfare and will lead to crises resulting in deaths, hunger, and poverty. Hence, two main attributes can be found in Lenin’s theorizing of imperialism - the concentration of capital is exemplified by monopolies and the continuous growth of domestic monopoly capitalist will result in transnational capitalism as the monopolies expand for the endless pursuit of monetary profit.

In “The Accumulation of Capital”, Rosa Luxemburg (1951), tried to find the reason for imperialism in the capitalist economy. Luxemburg emphasizes on the developing countries and discusses the European’s productive capacity overtaking the consumer’s ability to purchase, so the pre-capitalist, European colonies served as a new external markets for capital. Many scholars have labeled Luxemburg as an under-consumptionist claiming that capitalism’s expansion comes about because capital accumulates in Europe, while demand within the capitalist society does not increase sufficiently to absorb the increasing supply of commodities. According to Belliofiore (2007), Luxemburg’s theory of crisis and imperialism intends to address the demand constraints
of the economy as a whole which critiques Marx’s failure in showing the transition from simple to expanded reproduction for the accumulation of capital (53-69). The solution to the problem is additional money demand that has to come from outside of the capitalist part of the world, therefore, the capitalistic state have to invade and occupy non-capitalist part of the world (Belliofiore, 2007, 59-63). Luxemburg argued that the capitalist state’s oppressive custom and taxation policies in the colonies played an important role in the conquest of the colonies. For Luxemburg (1951), the expansion of capitalism through colonization represented the need to destroy the pre-capitalist’s “natural economy” (368-385).

The methods used in the case of British policies in India and French policies in Algeria are coercion, direct taxation, and commercial relations that will monetize the economy to forcing the laborers in the non-capitalist societies into labor (Luxemburg, 1951, 384). Luxemburg hypothesized a world capitalist system that will exploit the developing countries and like Karl Marx, acknowledged government’s taxations as the “secret of colonial capitalist primitive accumulation” (Forstater, 2005). Like Lenin, Luxemburg understood that the relations between capitalism and its colonies would result into political tension and international conflict because of market competition caused by the elusive quest for monetary profit. Luxemburg also saw European militarism in the periphery for the survival of capitalism. Both Lenin and Rosa Luxemburg’s (1951, Chapter 31) critique of capitalism predicted a series of wars and social revolutions that will lead to the decline of capitalism.

**Neo-colonialism: Invention of Development and Explanations for Underdevelopment**

After World War II, the infrastructure and the economy of Western Europe were demolished and capitalist countries at the time had no interest in protecting their colonial empires. While Europe was struggling to rebuild their economy, the United States (U.S.) and the Soviet
Union emerged as the hegemons in the global economy. The most notable U.S foreign economic policies are found within President Truman’s Four Points Program. In his 1949 presidential inauguration speech, which stresses the objectives that technological transfer from the developed countries to the developing country will amplify material progress and foster economic development (Escobar, 1995, 32). For the first time in history, a sovereign state acknowledged the suffering of individuals around the world and was willing to offer public assistance through technological and skill transfer to developing countries for the hastening of the process of economic development. Nevertheless, Truman’s Four Point Program was instantly a positive intention to improve the world. Despite making no promise about the outcomes of any changes. Instead, the Four Point Program conferred that North American social actors such as capitalist and laborers, were prepared to take charge of the initiative to tackle poverty, which created a social hierarchy that placed the U.S. on the top based on nations’ Gross Nation Product (GNP). This started a development age that is driven by the capitalist countries.

When discussing about economic development, modernization theory emerged as one of the popular explanations for the historical trajectory of global economic development. Conventional economics argued and agreed that capitalism has succeeded with transforming countries that were once part of the tradition into the modern industrialized countries of the present with economic growth\(^5\) enhancing the living quality of its citizens. The modernization theory process was described in Walt Rostow’s (1960) book, *The Stages of Economic Growth*, which requires the developed countries to pass through the five stages of growth:(1) the traditional society, (2) the precondition for take-off, (3) the take-off, (4) the drive to maturity, (5) and the age

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\(^5\) Economic growth, as defined in most standard economics textbooks, is an increase in the production and consumption of goods and services. Economics growth occurs when there is an increase in the multiplied product of population and per capita consumption.
of high mass consumption. The modernization theory framework assumes that the world was poor
and living in traditional social arrangement. Not until the spark of scientific discovery did Western
Europe experience increased productivity fueling the engine for economic growth. Once the
modernization take off happens, urbanizations increases and technological breakthrough occurs.
As the economy reaches maturity, large-scale investments in social infrastructure would benefit
the public. Slowly, industries will specialize in relatively narrow complex of industries and
technology. Finally, the economy will reach an age of mass consumption where there is a
widespread of high value consumer goods and consumers would typically have disposable income
beyond their subsistence needs. Since Western Europe has been through the five stages of growth,
the developed world can assist the developing world in making the transition from being a
traditional society to becoming a society with a modernized economy. The development
experience in Western Europe was glorified through the lens of modernization theory and has
become the prescription for development because the “modernized” countries’ rich history can
provide guidance as the right development model in the developing world.

The dependency theory is a critique of the modernization school of thought. Dependency
theorists such as Paul Baran (1957), Andre Gunder Frank (1966), and Immanuel Wallerstein
(1974) claim that the growth of modern developed countries comes at the expense of the
developing countries. Paul Baran (1957) advanced Lenin’s idea of imperialism by arguing that it
is in the interest of capitalism to keep the developing countries as an “indispensable hinterland”
because it was a source of raw material for the developed world to extract economic surpluses
(20). Baran divided the world into two distinct parts – the advanced capitalistic countries and the
underdeveloped countries. The interrelation between the two parts are characterized by the trade
flows to provide sources of cheap resources of primary products to the advanced capitalistic
countries, surplus flows in the form of profit and dividend, and political influence of the advanced countries in the underdeveloped countries to prevent economics development for maintaining status quo.

Andre Gunder Frank (1966) in the *Monthly Review Press* article, *The Development of Underdevelopment*, established Baran’s idea of underdevelopment by saying there were metropolitan vs. satellite areas in the global economy. Frank and Baran like many dependency theorists in the 1950 – 1960’s suggested that there is an unequal exchange between the developing and the developed countries (Isbister, 1991, 47). Isbister (1991) explained Andre Gunder Frank’s argument that as multinational corporations invest in a Third World country, “[they] bring little new money into a Third World country when they invest in a new factory; instead they borrow the money locally, from savers in the Third World country itself” (48). In the global market, the Third World countries are giving up much more of their resources than they gain from the developed countries because the rich is extracting raw material from the peripheral. These raw materials are provided to manufacturers in the core countries for production of the final commodities. Then the final outputs are shipped back to the peripheral countries for sales. In particular, dependency theorists claim that the Third World is serving the capitalist class in the international capitalist system because they are providing the raw material and purchasing the final commodities. The developing countries are heavily dependent on the rich because they do not have the technology and skills to replicate the production process for the final commodities. The underdevelopment of these poor countries leads to their inability to lift themselves out of poverty because of the conditions created by the nature of the circular trade relationship it has with the core

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6 The causality that savings drive investment rather than the reverse is a poor assumption and understanding of money. This is perhaps a flaw in one of the assumptions that dependency theorists often time make in the 1950-1960’s when hypothesizing about unequal development.
countries. In comparison, both Baran (1957) and Frank (1966) argued that the way out of dependency was de-linking from the metropolitan through government reforms, and possibly revolution, because economic development in the satellites are only in the interests of their metropolis and not in the interests of the mass of the population. In other words, the dependency theorist’ hypothesis of the interrelations of the developing world and the advanced capitalist countries was a reinforcement for unequal economic development.

Immanuel Wallerstein (1974) conceptualized Frank’s economic development model and added another taxonomy in his approach of economic development, known as The Modern World System theory. In Wallerstein’s (1974) theory that is based on a capitalist world-system, there is the periphery countries located in the regions of Latin America, Africa and Asia, the semi-periphery countries, and the core countries (403). In the World System Theory framework, a country’s development status depends on its placement within the world system hierarchy with each level under-developing the one beneath it. Furthermore, Wallerstein (1983) provided a different definition of capitalism by saying that “the historical development of capital involved the thrust towards the commodification of everything” rather than involving the mode of production and private property as stated by previous authors (16). Before capitalism, it was difficult to advance and expand the capitalistic system because not all elements of the circuit of capital were commodified. Wallerstein (1983) defines historical capitalism and identified that under capitalism, capitalist who do not attempt to expand capital, accumulated wealth invested with the objective of self-expansion, will eventually be bankrupted:

Historical capitalism, is, thus, that concrete, time-bounded, space-bounded integrated locus of productive activities within which the endless accumulation of capital has been the economic objective or ‘law’ that has governed or prevailed in fundamental economic activity (18).
According to Wallerstein (1983), capitalism developed in the 15th century and expanded globally by the 19th century (23). There are certain phenomena that can be explained by capitalism such as sexism, nationalism, and universalism, which harbors racism in our modern global society.

The issues of gender inequality, nationalism, and universalism, which harbors meritocracy with the reinforcement of racism in our modern global society, is the result of the expansion of capitalism in search of low cost labor. For the capitalists, one way to cut down labor cost and accumulate capital was by categorizing households. The semi-proletarianized households are better off for the capitalist than the proletarianized households in the capitalistic world economy because wage laborers can be paid with less than their subsistence wages. The capitalist system correlated the division of labor with the valuation of work and deemed money-earning labor as “productive” (Wallerstein, 1983, 25). Hence, capitalism has institutionalized sexism by creating a social hierarchy by redefining non-money earning work. Since men are generally the money-earners, they were deemed more “productive” and valued more by societal norms. In addition, this creates competition and tensions between laborers since women are serving as a reserve army of cheap labor to replace rebellious male workers.

For Wallerstein (1983), the endless quest to maximize profit has revolved around the conquest of other nation-states and it is the most effective method with altering the allocation of economics surplus. Nation-states control the movement of goods, capital and labor across their national borders. In addition, the nation-states determine rules governing social relations of production and like the classical Marxists, Wallerstein (1983) understood that nation-states have the power to tax its mass population (53). The power of taxation was one of the most effective ways to assist the process of accumulation of capital in favor of the wealthy over the poor because state taxation resulted in three ways to redistribute rewards (Wallerstein, 1983, 53-55). The state’s
taxation process has allowed for official subsidies from income tax to be legally distributed to the capitalist. It created the “de facto unconstrained absconding of public funds”, and the individualization of profit, while the socialization of risk interfered with the state to prevent financial turmoil (Wallerstein, 1983, 53-54). According to Wallerstein (1983), racism was oppressive and served to keep people in the lower social strata of life in favor of the accumulation of capital:

Racism was the ideological justification for the hierarchization of the work-force and its highly unequal distributions of reward . . . the beliefs that certain groups were ‘superior’ to others in certain characteristics relevant to performance in the economic arena always came into being after, rather than before, the location of these groups in the work-force. Racism has always been post hoc. (78)

Throughout the development of capitalism, the ideology of racism has been adopted or modified to the changing economic conditions that justify inequalities. Racism and sexism are self-oppressing because it created social expectations and limits for minority groups. The ethnicization of the human race helped socialize different groups into their roles within the global economy.

In ideology, capitalism involves the capitalists to be free from state interference with free competition governing the system. However, this is an ideological myth, since historical capitalism required the state to use physical forces and economic policies to force individuals into being dependent on capital. On the surface, nation-states seem to have political sovereignty in the modern archaic world, but in reality, they do not have total autonomy and are really just a part of an interstate system. The empire of capital has achieved its full development because of the destruction of its two greatest economic rivals after World War II. The collapse of the German and Japanese government has permitted the U.S. to become the strongest economic and military power in the world. Additionally, the creations of the Bretton Woods system along with international organizations such as the World Bank and International Monetary Fund have allowed the U.S. to
expand its markets to the developing countries with economic imperatives rather than “extra-economic” forces (Wood, 2003, 132-133). The role of the military has also shifted from being used for imperial expansion and enforcing direct colonial control to policing the world in the interest of U.S.’s TNCs.

While the old inter-imperialist rivalries relied on military forces to dominate non-capitalist colonies, the empire of capital relied on economic competition to maintain social order with the control of the labor force and wage level administrated by a world of nation-states. It is important to note that in the empire of capital, the major world powers are no longer engaged in direct geopolitical and military rivalry in the modern world. However, the survival of capitalism depends on a network of states to enforce property rights, stabilize monetary transactions, and insure the supply of cheap labor and to control the social unrest in specific geographic regions (Wood, 2003, 141). As a result, the nation-states are still vital for the capitalist system where it creates the preconditions that are necessary for capitalist accumulation around the globe.

Today, neo-colonialism is not about the domination of specific parts of the globe. The empire of capital is about policing the globe for capitalist accumulation in the interest of the hegemon’s capital with military action without an end. According to Ellen Meiksins Wood (2003), the U.S. accounts for 40 percent of the world’s military spending and possesses a military force greater than the next eight powers combined, “that is the paradox of the new imperialism” (142 - 143). Since the U.S. military power is not designed to conquer territories or defeat its economic rivals, it have no clear and definite objectives (Wood, 2003, 142-143). The contradiction is that the military serves a purpose because the U.S. would still emphasize on economic imperatives whenever it can, but the aid of selective use of military power is required when there is a potential threat to its hegemony in the international arena. Historically, there were multiple anti-systemic
movements (such as the labor-socialists and nationalist movement) attempting to seize the state’s power, but once they do, they are constrained by the interstate system. These so called “revolutions or movements” resulted in reforms that changed the balance of the power, but not the economic system known as capitalism (Wallerstien, 1983, 86-90).

There is a strand in the dependency school of thought that does not focus on the unequal exchange of the core and peripheral countries. These dependency theorists are willing to acknowledge that the world system can create new wealth in the Third World rather than just expropriation and exploitation. While there is economic growth and accumulation of capital in the developing world, it is unable to improve the living conditions of its people relative to the developed world because the wealth stays within a niche group that controls the agricultural and industrial development in the peripheral countries (Isbister, 1991, 48). Thus, poor countries are still unable to escape exploitation and poverty because of the class struggle between the proletariat and the local bourgeois. The dependency group as a whole either would explicitly or implicitly advocate ending trade relationships to strengthen isolation from the capitalist class as a strategy for economic development.

In contrast, Marxism has three principles that distinguish itself from the dependency theory. First, the Marxist school of thought would argue that a class structure exists within Third World societies (Isbister, 1991, 52). The fundamental forces for social changes lie internally and not externally in the developing world. Second, capitalism cannot create growth in the economies of the Third World. Finally, imperialism is often viewed as an agent of technological progress and the endless quest for capital accumulation. The Classical Marxist is similar to the modernization theory, such that capitalism is a powerful engine for economic growth and technological advancements. However, both Classical Marxist and dependency theorists look at the developing
world very differently from the way modernization does. Classical Marxist sees capitalist firms
and the class structure in the local societies as the root of the problem while dependency theorists
see capitalism essentially as a system of market exchange relations, and not a class struggle
facilitated by the wage labor system (Isbister, 1991, 55). After examining all the dominant theories
of development, it was framed by people of the developed countries. Although, great efforts have
been made to better the lives of people around the globe, many of these theories often focused
heavily on economic growth as an important indicator for sustainable development while ignoring
the qualitative social aspects and biophysical limits as constraints of the world system.

Brian Czech and Herman Daly (2004), in their technical review on economic growth, has
concluded that there is a conflict between the growth of the economy and the conservation of our
natural environment (598). The expansion of capital has caused deforestation, soil erosion, and
environmental damage in search of cheap labor and raw material for mass production. Many
environmentalists such as Fred Magdoff and John Foster (2010) has strongly argued that
continuing “business as usual” is a path to global disaster with the tendency to increase production
and consumption. Since, the industrialized revolution, coal and fossil fuel are the engine for mass
production. The dependence and need to consume coal or fossil fuel to power economic growth
have caused higher levels of CO₂ (Magdoff and Foster, 2010, Part I). Higher levels of CO₂
emission have caused a rapid decrease in the world’s mountain glaciers, which impacts drinking
water sources for human being and the extinction of species that is part of the food chain in our
ecosystem (Part I). Magdoff and Foster (2010) further their analysis and states that another
economic system is not just possible, it is essential for humanity because:

The system of world capitalism is clearly unsustainable in (1) its quest for never
ending accumulation of capital leading to production that must continually expand
to provide profit; (2) its agricultural and food system that pollutes the environment
and still does not allow universal access to a sufficient quantity and quality of food;
(3) its rampant destruction of the environment; (4) its continually recreating and enhancing the stratification of wealth within and between countries; and (5) its search for technological magic bullets as a way of avoiding the growing social and ecological problem arising its own operations. (Part VII)

Environmental destruction is not a result of human ignorance or greed and TNCs and capitalists are not necessary morally deficient. Instead, individuals can argue that the fundamental working of the current economic (i.e. capitalism) and political system has a tendency to expand production. The inner nature of our system of production to expand capital has caused conflict with the environment and will create a planetary crisis for humanity. Thus, big government and public policy reforms are required for the transition to an economic and political system that is socially sustainable for the human population and ecologically sustainable for our planet.

*Beyond Economic Growth and Mass Consumption for the Model of Sustainable Development*

Neoclassical economists have argued that rising inequality can be eradicated by promoting robust economic growth. Repeatedly, capitalism, technological and financial innovation, and monetary growth are the recommendations as a resolution to social issues related to global poverty, such as hunger, and exponential growth of human population. The neoclassical’s assumption is that there are equilibrating forces in the free market that will result in a trickledown effect in society. However, statistical evidence and the biophysical limits of our finite planet provide a physical constraint for constant growth as the solution to rising inequality. To simultaneously reduce inequality and stop the biophysical decay of the planet, there must be social planning in the local communities, national level, and at the global level. The process will require individuals, households, and firms to divest from fossil fuels that are fueling the engine for economic growth (McKibben, 2012). Nation-states will need to re-regulate corporations, to end the culture of mass consumption, taxing the rich, and creating employment in industries that promote human
development\textsuperscript{7} such as education or health care, rather than to simply maximize profit and minimize cost.

The nation-state’s government can play a crucial role in the betterment of people’s lives. Individuals can learn from Marx, Luxemburg, Wallerstein, and Forstater that the nation-state’s government was important in facilitating the development of capitalism. To envision a sustainable future for our global economy, the government needs to implement effective policies to change human behavior and promote sustainability. According to Herman Daly (1991), “Just as the microunit of the economy, (firm or household) operates as part of a larger system (the aggregate or macroeconomy), so the aggregate economy is likewise a part of a larger system, the natural ecosystem. The macroeconomy is an open subsystem of the ecosystem and is totally dependent upon it, both as a source for inputs of low-entropy matter-energy and as a sink for outputs of high-entropy matter energy”, there is a macroeconomic of optimal scale problem when discussing about economic development (256). Humans need to acknowledge that the ecosystem has a biophysical limit for continuous economic growth as the solution to social issues. Daly (1991) argues that there must be an optimal scale at the macroeconomic level to determine if the expansion of production and consumption would be greater than the earth’s carrying capacity (256-257). First, individuals need to divest from oil investments and promote a government that would be willing to promote the use of renewable energy. The labor movement can be used as a political vehicle to advocate for structural changes in the governments globally. The depletion allowances from the state to the

\textsuperscript{7} Human development focuses on improving the lives people lead rather than assuming that economic growth will lead, indubitably, to the greater wellbeing for all. The human development approach, developed by the economist Mahbub Ul Haq, is introduced in Amartya Sen’s, the 1998 Economic Nobel laureate, work on human capabilities and further reading can be found in his book \textit{Development as Freedom\textsuperscript{*} (1999). Thus, we can assume income growth should be seen as a means to development, rather than an end in itself. It is about providing individuals with opportunities, not insisting that they make use of them.

\textsuperscript{*}Noted in the references for further reading.
oil companies should be severed and corporate taxes should be raised to influence consumption behaviors for the transition into a “steady state economy” (Daly, 1991). So, what is a steady state economy? Brian Czech and Herman Daly (2004) provided an explanation for the steady state economy, “A steady state economy (that is, an economy with a relatively stable, mildly fluctuating product of population and per capita consumption) is a viable alternative to a growing economy and has become a more appropriate goal in the United States and other large, wealth economies”, it is a global economy that remain constant in its physical size for the long run while generating pollutant at a rate that does not exceed the assimilative capacity of the environment (598-600). This could be done by using a carbon tax to raise prices that affect the price elasticity of demand for fossil fuels.

Second, Abba Lerner’s (1943), in his principles of functional finance, illustrated federal governments can use their government deficit to create sustainable employment. The government deficit will grow when the economy contracts and the deficit will contract when the economy expands. This will require a national fiat currency that is not fixed and tied to any commodities, or the currency of other nation-states. In other words, money is created by the nation-states and can be leveraged to drive the economy with direct taxation. Since the power of money creation is in the hands of the state, governments can impose a “job guarantee program” (Forstater, 2006, 62). The income inequality problem can be lessened when firms do not have a reserve army of labor to discipline their current workers (Forstater, 2006, 62). A public employment program will allow the government to set a minimum wage that can meet the subsistence need of its mass population. Private firms will have to adjust to offer and match the public employment program’s wage benefit package because laborers will have an incentive to work for the government rather than the private sector (Forstater, 2004, 58). These public investments must be in projects related to the building
of public infrastructure, renewable energy that does not heavily rely on fossil fuels such as wind or solar energy, and the development of the well-being of humans that includes higher education, environmental education, and a universal health care system.

Third, while the industrialized countries are making the transition to a more sustainable economy, the industrialized countries can provide assistances to the developing countries to create an economy that is not heavily dependent on fossil fuels. This is feasible because the developing countries do not necessarily have stable public infrastructures that are set into place. These developing states are capable of creating nation-states that will utilize public transportation and a culture that favors social programs, which promote employment in industries that consume little or no fossil fuel. Again - big government, more public investment, and more regulation are required for the execution of these public projects.

Finally, the taxing of the rich and corporations are important in this whole process. These elitists are the reason why there is rising inequality because the capitalistic system tends to expand markets seeking for the accumulation of wealth. When laborers unite and demand for social justice, this can dramatically influence climate change and reduce social inequality. The institutional ceilings and floors that are created to regulate corporations can help remove market competition amongst firms. When businesses are not forced to generate profit for their survival but are about providing quality services to its customers for survival, then society will see a reduction in inequality and environmental destruction. These services can be in health care and higher education. The hiring of new teachers and nurses can create meaningful employment for people. The services that laborers provide can promote meaningful growth that meets the basic need of humans without necessarily producing commodities that people do not need for survival.
The global world needs to transition into a steady state economy. Public policies needs to be an instrument to influence the fluctuation of population growth and keep it at a constant rate. The objective should not be continuous economic growth but about meeting the subsistence and social needs of people. This requires more regulation of corporations and public investments made in non-fuel intensive industries that promote the advancement of people while providing employment for anyone who wants to be employed.

**Conclusion**

In conclusion, the trend of globalization on the capitalistic mode of production has created a global reserve army of labor and allowed TNCs to exploit laborers to keep labor cost and wages low. The expansion of capitalism and market have limited the rights to minority groups. It has been able to end the uprising of labor movements, which help intimidate workers to accept lower wages and working conditions due to market pressure in the labor market. The empire of modern capitalism has failed to provide full employment, social equality, and ecological sustainability for the global human population in its current system of production. To provide sustainable development, the objective of development should be targeted on the qualitative aspects of life rather than technological and GNP growth as the means to solving social issues. Instead of viewing the world as two distinct parts in the context of developing and developed, individual should start with a world system that is a subset of the ecological environment and that requires social collaboration for the survival of the human race on planet earth.
References


Reconsidering Marx’s Theory of Money:  
A Circuit Approach

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Introduction

Despite many elaborations on its value, Marx held that money must ultimately take the form of a commodity; he held to a strict commodity standard, nowhere more noticeably than in writing, ‘although gold and silver are not by nature money, money is by nature gold and silver’ (1970, 15; Somerville, 1933; Nelson, 1999). Marx held to the commodity theory of money in spite of the emphasis he gave to its value as a social phenomenon. As has been recently argued, the plausibility of a strict commodity theory of money can certainly be questioned, severely in recent times. And though it has been argued by some (Weeks, 2013; Germer, 2005) that such a theory of money keeps Marx's 'material' focus, as Foley (1983; 1998), Lapavitsas (1999; 2005), and Wray (1998) point out, a credit theory of money can have as a strong a material base in labor as Marx supposed the gold standard to have.

It seems more than reasonable to uphold a 'pluralistic' account of money, that is, the thesis that money has the ability to take on many specific forms, credit, commodity, or electronic, and still retain its essential function as money, rather than hold stubbornly to any 'standard' (Peacock, 2013). This follows from a conceptually advanced view on the ontology of money, not merely as some economic category, but a social one. Money is able to change its form and still retain its essence; it is not specifically a commodity, nor is it merely a social relation between a creditor and debtor.

As a social institution, the function of money can be found through the interaction of people in the collective exchange of goods and the use of labor. In this regard, a much more satisfactory
account and deeper questioning on the social features of the value of money was provided by Marx (1991), by Simmel (2004), and by the 'state theory' of Innes (1913) and Knapp (1924). The circuit approach developed by Graziani (1990), allows for the entry of an extension of Marx's monetary theory without any dilution of a Marxian value theory. Using this pluralistic approach we should be able to retain an 'orthodox' approach to Marx's theory of money, while also incorporating the 'credit theory' of money into a Marxian framework. While Marx ultimately held to a strict commodity theory of money, it can be shown that a credit theory of money can have the same 'material' basis with direct ties to labor; the removal of commodity money from Marx's theory does little to diminish his value theory. In fact, a strong case can be made that a credit or non-commodity theory of money improves it and that Marx's theory requires it. Furthermore, Marx's theory of money and his reproduction schemes have an affinity with the theory of the monetary circuit. A Marxian monetary theory can be demonstrated within that framework, which espouses an original Marxist understanding of contemporary capitalism.

My procedure is to begin with a brief summary of Marx's value theory, emphasizing its monetary feature; this is then followed by a statement of Marx's own monetary theory and its orthodox support. A recantation of Marx's commodity theory of money is then given. This modified Marxist theory of money is then showed to be consistent with Marx's original position and with the theory of monetary circuit. A simple model is given within this framework. It can be easily entertained that more research on this modified Marxist theory of money can be done, which could provide an insightful theory on the macrodynamics and distribution of the modern capitalist economy.
Marx's Monetary Theory

2.1. The Monetary Expression of Value

There is much to be written on Marx's writings and thoughts on money and monetary theory, so much so that there is an immense literature on it. Much of Marx's writing deal with money as both an economic and social phenomenon; it is a subject to be found in all his works, from the *Economic Manuscripts* to the final volume of *Capital*, often with brilliant insight and criticism of both the classical economists and the corrosiveness of capitalism as a society.

There are few economists, if any, who can match Marx's versatility in employing a full interdisciplinary approach throughout his work, continually shifting from sociology, philosophy, to economics often within the same paragraph. Marx's versatility, while it is refreshing, also makes understanding his thought that much more difficult, as it can be interpreted, extended, classified, in different fashions as has been done. For some, Marx is a philosopher, to others he is an economist, and still for others an ideologue, fuming over things he knew nothing about.

One cannot begin to discuss and interpret Marx's monetary theory without first delving into his theory of value. With regard to his monetary theory, understanding Marx's value theory is crucial, as it buttresses all of his thought; it would be thoughtless to enter into expounding Marx's monetary theory, without first dealing out an explanation of his theory of value.

Marx's theory of value is an extension of the classical political economists, criticising and developing the concepts before him. As Schumpeter remarked, Marx 'worked with [the] tools […] he found and not with tools that he created' (1954, 390–391). In particular, Marx took a good deal of influence from Ricardo's economic theory; however strange it might seem, Marx held Ricardo to be one of the most eminent economists of the time. A good deal of Marx's own economic theory,
can be seen as a critique and, even at time, a development of Ricardo's; and this is most notable in both value and monetary theory.

Specifically, the treatment of value and price by Marx is not to develop a theory of exchanges in the market place, nor to develop the best way to maximise wealth. Centrally, his critique is how these prices and values are formed, not by market agents, but by social agents; the script of the play, rather than the actors who simply present their lines; it is, after all, the script that determines the lines spoke and actions performed by actors.

Marx begins with the commodity, the object at the centre of capitalist production rather than a theory of the market itself. Capitalism, after all, is the historically peculiar social arrangement that produces goods and services not for any immediate usefulness, but produced for the end of profits: anything produced is presupposed to be a commodity to be sold in the market (Marx, 1976, 181). The resulting division of labour arranged for this purpose, reveals the machined, pecuniary nature of modern society, as Marx explains:

While the division of labour in society at large, whether mediated through the exchange of commodities or not, can exist in the most diverse economic formations of society, the division of labour in the workshop, as practise by manufacture, is an entirely specific creation of the capitalist mode of production (Ibid., 125).

Commodities provide use value (Gebrauchswert) to the consumer; a good would not be of any value if did not possess some utility. For Marx, the only way for goods to acquire exchange value is to have a use value, thus acquiring the sum of all value incorporated within it (1976, 129). There would be no exchange of goods if they did not have a degree of utility (Ibid., 131). The complement to use value is exchange value (Tauschwert); together they complete the dialectical unity of the commodity. For Marx, exchange value is what an item will exchange for in a society; and what it will exchange for, as Marx says, 'appears to be something accidental and purely relative' (Ibid., 126), as it is determined by the function of the 'law of value' (Ibid., 138–139),

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further 'it can have no more natural content than has, for example, the rate of exchange' (Ibid., 176). Both aspects of value arise from the labour employed in production: concrete labour for use value, abstract labour for value (Saad-Filho 1998; Bellofiore, 2000; Fine and Lapavitsas, 2000). Use and exchange value belong with one another in a dialectical relationship: neither has any substance without the other. It is this dialectical concept of the commodity, which leads Steve Keen to call Marx 'the greatest champion of the labor theory of value' (1993, 107).

The problem of measuring values again finds Marx distancing himself from Ricardo's value theory. Advancing from the grasp of the Ricardian doctrine of measuring the total value of a commodity by quantity of labour hours, Marx introduces the concept of 'socially necessary labour time,' to account for the magnitude of value in commodities (1973, 129). While all commodities are produced by human labour, it is only on an ideal, 'equal' level, can they be compared with another: human labour in the abstract (Ibid., 128). It is from abstract (aggregated) labour that goods received their value, as Weeks writes, 'the fundamental transformation in value formation is from concrete to abstract labour' (1982, 66). Marx clarifies his distinction between abstract and concrete labour by the following:

all labour is an expenditure of human labour power…and it is in this quality of being equal, or abstract, human labour that it forms the value of commodities. On other hand, all labour is an expenditure of human labour-power in a particular form and with a definite aim, and it is in this quality of being concrete labour that it produces use-values (1973, 137).

Each work process makes use of concrete labour, which in turn is rendered abstract in exchange. Labour becomes abstract on the aggregate level, which as, Weeks writes, 'generates a social norm that each capital must emulate, [through which] abstract labour created under the domination of each capital appears as part of society's total socialized labour' (2010, 33). When a commodity acquires its value from labour an inner value is introduced, which governs to some
extent the exchange rate of the commodity. In other words, a commodity's 'price' is partially determined before it enters the market. Alterations in supply and demand may change the price of the commodity, so it may sell below or above its value; but the value of the commodity remains constant in relation to abstract socially necessary labour required to produce it. If one commodity is selling above its value, another commodity must be selling below its value; otherwise, the aggregate relation would not hold. For Marx, there had to be something more to the price of a good, this was the value given to by labour, and thus

The sphere of exchange has a relative autonomy, but it is ruled, regulated and dominated by the conditions of production and reproduction. The operation of this double relation is what Marx means by the law of value: prices as the immediate regulators of reproduction, social labour-times as the intrinsic regulators of prices and hence of reproduction (Shaikh, 1984, 44).

The expenditure of labour does not lead directly to its price; the embodied labour in a Starbucks coffee is only a qualitative aspect of its value, not its quantitative or 'exchangeable' value (Marx, 1973, 136). Labour, in other words, does not 'create' exchange value; it only gives rise to use value, as goods have no other way of originating other than a specific, concrete application of labour power, which on the aggregated level of the market, becomes spectral abstract labour. Put another way: labour power possesses the innate feature of producing potential value (Bellofiore and Davies, 2000). Workers become attendants, appendages, of the means of production, serving as a means of absorption of their labour-power expressed in the commodities they've produced in the motion of capital (Bellofiore, 2007; Marx, 1976). The expression of this 'value [as socially necessary labour time]...is expressed by an imaginary quantity of the money commodity' (Marx, ibid., 190).

2.2 Marx's Theory of Money
Marx's most complete statement of his theory of money is in *Capital*; there is a summary statement in the first volume of *Capital*, with the other volumes containing interesting uses of his theory. It must be crucially seen that Marx's monetary theory was developed as a criticism and response to Ricardo, whom, according to Marx, held the value of money to be derived from the labour time used for its production, with the qualification that this applied only when the quantity of money stood in the right proportion to the prices and quantities of commodities to be exchanged. In other words, Marx criticized both Ricardo's quantity theory of money as well as Ricardo's value theory, finding both internally inconsistent. In place of Ricardo's quantity theory, Marx put up his own peculiar commodity theory of money, which has allowed for a good deal of interpretation as with most of Marx's work.

The material form value takes within capitalism—Marx, of course, always thought himself to be a 'materialist'—is money; commodities may also take on the 'appearance' of value, but not in the same manner as money. It's one of the peculiar consequences of living in a capitalist society that money also happens to be the only reason that commodities are exchanged: capitalism, after all, is not a barter economy. The importance of money in capitalism is given its stress by Marx in an important passage:

Money necessarily 'crystallizes' out of the process of exchange, in which different products of labour are in fact equated with each other, and thus converted into commodities. The need to give external expression to this opposition for the purposes of commercial intercourse produces the drive towards an independent form of value, which finds neither rest nor peace until an independent form has been achieved by the differentiation of commodities into commodities and money. At the same rate then, as the transformation of the products of labour into commodities is accomplished, one particular commodity is transformed into money (1973, 181).

Briefly placed, Marx's account of why this must be so, comes from the exchange of goods and 'boundaries' reached on the social level where there are many varieties of goods. Commodities
possess their value by the sole virtue of being products of labour, but commodities themselves are incomparable, and cannot be directly exchanged due to this incommensurability; it's pointless, for example, to talk about five books equalling the worth or 'value' of a bottle of wine. There is the need for some further thing, which would lead to this impasse of incommensurability being left behind and the books and the wine exchanged. Extending his theory of value, Marx reasons that exchange can only take place where there is a 'universal equivalent,' by which all other commodities may be measured in relation (1976, 182). This 'further commodity,' Marx writes, 'directly acquires the form of a universal or social equivalent, if only within narrow limits' (183).

And Germer, summarizing Marx writes:

> Consequently, each product of a particular labour, in order to be recognized as a component of social labour, must be converted into this product of a specific type of particular labour that has become the representation of social labour. This product of a labour that is simultaneously particular and social is the money commodity, whose finished form in capitalism is gold (2005, 31).

> Furthermore, it is argued by Marx, that both social custom and norms will determine the specific form that money takes as the universal equivalent (Marx 1976, 182; Lucarelli, 2010, 200.) Though it existed before capitalism, money and 'money things' are integral to the functioning of capitalism, and thus the society that engages in a 'capitalistic mode of production,' more so than in prior societies. For Marx, the insistence that money must be a commodity really comes about from the logical necessity of his value theory. The idea that one out of the many varieties of commodities should take on the special, peculiar role as the 'universal equivalent' gives that commodity a kind of monopolist power, as Lapavitsas writes 'The universal equivalent as monopolist of the ability to buy is the social bond of commodity owners, the *nexus rerum* of capitalist society.' (2005, 97).

This is the peculiar intrigue of Marx's monetary theory, which incorporates his theory of exploitation into his study of economics.
2.3 Functions of money and hoarding

The functions that Marx attributes to money displays another compelling piece of his monetary theory that was once not widely appreciated, though an expanding literature on this feature of his monetary theory has given it a much deserved level of interest (see for example, de Brunhoff, 1973; Rosdolsky, 1977). For Marx, there are three primary functions of money: the first, is a measure of value, the second, as a means of circulation, and third, as the abstract representative of value, or 'money as money.' It is important to recognize that, for Marx, money contains and consists necessarily of these functions from historical and social necessities; not one function of money dominates another, rather it is all three that make up money's function within a capitalist monetary economy.

What allows for the service of money as the universal equivalent, is through its essence as the 'abstract expression of labour' (Marx, 1976, 186). Expended labour time 'embodied' in commodities, however, cannot itself be directly money: it must take some separate form; this form is in money (ibid). The form of money, is both essential and necessary to the existence of commodities: it is nothing but exchange value 'separated from commodities and existing alongside them as itself a commodity' (Marx, 1973, 144).

Though not immediately social, the labour of 'private individuals' becomes social when those produced goods are sold in the market for money. This labour is both 'abstract' and 'socially necessary' and can be neither expended in some particular production process nor measured by some amount of concrete labour. The socialization of all the private labour within a capitalist economy requires the existence of a universal equivalent, representative of the abstract, socially necessary labour (Hein, 2006, 115). The service of money as the universal equivalent allows commodities to realise their value and completes the circuit of capital developed in the second
volume of Capital. As Hilferding wrote, 'Money is a commodity like all other commodities and thus embodies value, but it is differentiated from all other commodities by being the equivalent of all of them and thus expressing their value' (1981, 33). 'Price is the money-name of the labour objectified in a commodity' (1976, 195–196). Yet, the money name (price) is always changing with supply and demand, so prices deviate from the value of a commodity. Money, in other words, allows for commodities to be exchanged as products of human labour, while concealing this fact in the fetish of money and commodities (Ibid., 187). As Marx states explicitly, 'Money as a measure of value is the necessary form appearance of the measure of value which is immanent in commodities, namely labour-time' (188).

As a means of circulation money allows for the settlement of debts and for the purchasing of goods; it is a necessity for a modern economy in which thousands of commodities are exchanged within the complex social division of labour that is capitalism. Money comes about, in other words, as a way of reconciling the individual, specific uses of labour to create produce—commodities—not directly consumed by the creators of the social produce, though labour is still indirectly tied together by the exchange and consumption of the total social produce. This portion of Marx's monetary theory is similar to Adam Smith's account of the origin of money, where Smith had held that because of the complexities involved with exchange, money had to come about to ease transactions (Smith.2003, 33–35).

This account, of course, is the theory of money as a 'veil,' or observing money merely in its role in circulation, as Marx might have written. Neoclassical theorists, of course, really took off after the lowering of 'transactions cost' that money allows, supplying hordes of papers on the subject. The demand for 'money,' as a mere intermediary ('lubricant') of exchange, depends on its ability to lower the 'transaction costs' of exchange in the market (Menger, 1892; Hicks, 1939;
Hahn, 1971). In theory, money could be anything, but it is clear that money is not merely anything; it has an obvious, demarcated form that is used daily by all members of a given society; and this form has been recognized by societies throughout human history. What is more, in the theory of money held by neoclassicals, given the assumption if all prices are known universally by all 'economic agents' then the use of money is completely non-existent; there is no strict necessity at all for the use of an 'intermediary' called 'money.' People, in essence, are theorized to be living in some kind of anarcho-syndicalist commune, freely trading services and things to each other; it is the perfect society, with no crime, no poverty, nothing nasty happens, and everyone gets what they want; it is positive economic theory in all its splendid, theoretical glory.

For Marx, the circulation of commodities reveals social phenomena that the 'veil' account of money does not; these, of course, are the two circuits C–M–C' and M–C–M'. And while, Marx may have adopted something of the veil account in his own monetary theory (Lapavitsas and Itoh, 1999, 44), his account holds, as will be discussed in more depth later, that money operates outside of circulation, so money is not merely some veil. In other words, money is not neutral for Marx. Commodities are not directly exchanged; they are sold for money (C–M) and purchased by money (M–C), barter is simply not a possibility.

The third and final feature that Marx attributes to money is its presence as the expression of abstract value within a monetary, capitalist economy, or 'money as money.' In this function, the more complex features of money are presented by Marx namely its use in hoarding and as means of payment. It is this third function of money that sustains and allows for Marx's criticism of Say's law; it is a function neglected by Ricardo's argument that there is never a lack of demand. This can occur only if the demand for money is for its feature as a store of value and not merely a demand for production.
In opposition to the 'metaphysical comfort' given by equilibrium analysis and by Say's Law, which Ricardo, James Mill, and their distant descendants neoclassical economists, Marx developed his theory of 'hoarding,' which is comparable with Keynes' liquidity preference (Campbell, 1997; Lapavitsas, 2005), but within Marx's monetary theory, hoarding is separate from Keynes' theory of liquidity preference. Hoards, for Marx, have a peculiar role to play in the accumulation of capital, which at once displays his critique of Ricardo's version of Say's Law, and his criticism that capitalism is structurally instable, as a result of its inner anarchy. For the tendency to hoard there are impelling reasons, psychological and economic. As Marx writes, 'Money is not only an object of the passion for riches; it is the object of that passion' (1970, 132) It would be senseless to heap up surplus amounts of other use values, but money is something that cannot be over accumulated; it is the one commodity that has permanent and universal exchangeability, whose use value exists solely in its exchange value.

Whatever economic loss may be the result of saving-without-investment, there are intelligible reasons for it from the standpoint of the hoarder. Marx points out, as others have done, that hoarding increases in times of disturbance and uncertainty. In such times there is apt to be saving-without-investment or, as Marx called it, interruption of circulation, for a twofold reason; both production and consumption are lessened from the hoarding of money. Reserves are not hoards; reserves are kept to meet payments that may become due. Reserves are within circulation, hoards are outside it. The reason why hoarding is normally at a minimum under capitalism is that it prevents the conversion of money into capital and the production of surplus-value. Of course, Marx argued that hoarding can only be done with metallic coin, bullion in his case (Nelson, 1999 104, 134; Marx, 1976, 230), which limits the effectiveness of his theory if money is not a
commodity. This is a misfortune, as the possibility of hoarding underlies Marx's critique of Say's law, and, as will be argued later, requires that money not be a commodity.

**Interpretations of Marx's Monetary Theory**

3.1 The Orthodox Position

There has been increased attention to Marx's monetary theory in recent years and a good deal of the attention has focused on whether his theory requires commodity money. In the other words, the ontology of money—if it is a commodity or if it is merely some abstract means of accounting—has presented itself as a central task of Marxist monetary theory.

Orthodox adherents, with Marx as their forbearer, hold that money must necessarily be a commodity. For Marx,

> [g]old becomes the measure of value, because all commodities measure their exchanges values in gold, in proportion as a certain quantity of gold and a certain quantity of the commodity contain the same amount of labour-time; and it is only by virtue of this function of being a measure of value, in which capacity its own value is measured directly in the entire series of commodity equivalents, that gold becomes a universal equivalent or money (1970, 75).

For Germer, there are two clear, sound, theoretical demonstrations why money must be a commodity. The first, is that money must have a measurement of value in the same manner that a physical body must have a weight (Germer, 2005, 24; Marx 1976, 148). Just as weighing two distinct items, such as a shoe and rock puts them into a relation concerning their mass, the measurement of the distinct values of two different commodities puts them into relation with one another (Marx, 1976, 145). The familiar and well known relation, is, of course, the measurement of 'embodied' labour values in the commodities. Why this must be so—aside from the source in Marx—that money must take a physical form, is rather elusive. Money as Simmel writes, derives its content from its value; it is value turned into a substance, the value of things without the things themselves' (2004, 119).
The second argument Germer brings forward, is that money must be a commodity because it acquires its value from labour expended on it and there must be a further commodity to ensure the exchange of two commodities can be done (2005, 30–31). In other words, money must itself have value, and following Marx's logic, for something to have value some amount of abstract labour must be contained within it (Marx, 1976, 188). There are, of course, limitations to the amount of gold or whatever metallic form that the money commodity takes; fiat currency, valueless tokens as Marx's terms it, are issued to shore up this material limitation (1976, 223-224). As Weeks writes, 'As the measure of value, the money commodity provides the denominator of prices, and the prices we observe are determined by the amount of fiat money per unit of the money commodity' (2012, 78).

There is a kind of endogeneity implied by Marx's theory of the money commodity and the defence of it given by Germer and Weeks. Since money is produced like other commodities, and since it serves as the general equivalent of value, it is produced according to the requirements of general commodity production. This is an important point to keep in mind, as it will be argued later, that Marx's monetary theory is akin to Post Keynesian and Circuit theory approaches to money. Money is endogenous in three senses: first, money's necessity to represent the abstract labour contained in commodities objectively; secondly, the exchange-value of money is derived from the labour-time required to produce the money commodity and other commodities—a specific case of the labour theory of value; and thirdly, the quantity of money in circulation is derived from the sum of prices.

In a simple three sector, comprising of a capital goods sector, a consumer's good sector, and a commodity money sector, Marx's commodity money theory can be shown symbolically. The presentation, of course, does not include a government and foreign sector. So we have
\[ \Lambda_i = (a_i \Lambda_i + w_i n_i \Lambda_i) + \chi_i \]
\[ \Lambda_2 = (a_2 \Lambda_1 + w_2 n_2 \Lambda_1) + \chi_2 \]
\[ \Lambda_e = (a_e \Lambda_1 + w_e n_e \Lambda_1) + \chi_e \]

Where \( \Lambda_i \) is the abstract socially necessary labour value of each sector \( i \), \( a_i \) the means of production for each sector, \( w_i \) the 'real wage,' \( n_i \) the amount of socially necessary labour required for each production process, and \( \chi_i \) the surplus value of each process. The 'prices of production' of these commodities are expressed, with \( \gamma_i \) as the price of production for each commodity and \( r \) as the average rate of profit.

\[ \gamma_1 = (a_1 \gamma_1 + w_1 \gamma_2)(1 + r) \]
\[ \gamma_2 = (a_2 \gamma_1 + w_2 \gamma_2)(1 + r) \]
\[ \gamma_e = (a_e \gamma_1 + w_e \gamma_2)(1 + r) \]

The prices of production for both capital and consumption goods can be expressed as a ratio to the value of the money commodity:

\[ p_1 = \gamma_1 / \gamma_e \]
\[ p_2 = \gamma_2 / \gamma_e \]

In either case, the commodity's price is expressed as an amount of the general equivalent, but the price of production of the money commodity is not equal to its value \( (\gamma_e \neq \Lambda_e) \). The arguments made by Germer and by Weeks are well taken; it is well agreed that for Marx money is by necessity a commodity; the account follows logically from what Marx himself argued. Marx's arguments for a commodity money are indeed consistent with his value theory, but seen in a broader light, it is not a very satisfactory one. It is argued by others that Marx came to his conclusion rather illicitly, evidenced by the labyrinthine arguments Marx employed to espouse his
commodity money theory. What is argued by these authors, is that a theory of money based on Marx's need not entail a money commodity; it is, in fact, argued that a theory of modern capitalist economics can be improved without a money commodity as its centre (Bellofiore et al. 2000; Hein, 2006; Graziani, 1997). It is this approach we turn towards.

3.2 Money as Credit

Money is imminently a social phenomenon, a 'social relation' as Geoffrey Ingham has continually expressed in his work (2003; 2001). Marx's monetary theory can easily allow for the entry of such contributions, as Marx himself expressed throughout his work the importance of social relations (1970; 1973; 1976). In the *Treatise on Money*, for example, Keynes stated explicitly 'money of account' to be the primary feature of money (1930). Credit money is a means of purchasing power without a commodity form, and, as has been argued, money is by its essence a form of debt and has always taken on this feature even if a commodity is used (Peacock, 2012; Moore, 1988; Ingham, 2004).

This theory of money developed from the writings of Thomas Tooke in the 19th century, from the writings of Friedrich Knapp's (1924) and those by William Mitchell Innes (1998; 2012) and has gained considerable influence amongst Post Keynesians and by the Circulation School. But the development and thought of these schools need not concern us much. What is our focus at this point, is to recognise that Marx understood the concept of money as a unit of account comparatively well; and furthermore, a Marxian—in the sense that it is heavily influenced from his writings, not in one of unapologetic hero worship—circuit theory can be developed from his theory, by the incorporation of the redefinition of money as essentially debt.

The social relationship of money, as Marx pointed out, where it functions as a means of payment, is that between a debtor and creditor (1976, 233). Once paid, the creditor no longer holds
the debtor liable; credit is 'destroyed,' as circuit theorists put it, once profits have been realized in the form and debts once owed have been paid; the circuit repeats itself *ad infinitum*, until the contradictions of capital come about. The means of payment must not necessarily be in the form of a commodity for this purpose (ibid., 236-237); the history of money has shown that, as a means of payment, money has taken strange and peculiar forms (Carruthers and Barb, 1996; Graber 2005). In contemporary time, the form that value takes has become fiat currency, issued by central banks, and enforced by government. And Still, while Marx realised that money may become 'valueless' fiat money, and still serve as money, it is 'haunted' Marx says, by the metallic mass that is gold (1976, 226): the 'real' money that reveals the contradiction within capitalist markets (Marx, 1970, 1973, 1976; Weeks, 1981; de Brunhoff 1973; Nelson, 1999).

It can be convincingly argued that a credit theory of money can easily be inserted in place of Marx's monetary theory, replacing the money commodity at its centre, without losing much, if any, of his value theory. There is the sourcing of the transient nature of the 'money commodity' within the first volume of Capital. Marx begins by answering why gold is 'capable of being replaced by valueless symbols of itself.' He associates the 'metamorphosis' of gold into 'valueless symbols of itself' with the 'circulation' of commodities in the market:

The presentation of the exchange value of a commodity as an independent entity is here only a transient aspect of the process. The commodity is immediately replaced again by another commodity. *Hence in this process which continually makes money pass from hand to hand, it only needs to lead a symbolic existence.* Since it is a transiently objectified reflection of the prices of commodities, it serves only as a symbol of itself, and can therefore be replaced by another symbol. One thing is necessary, however: *the symbol of money must have its own objective social validity* (226, emphasis added).

Money is the apogee of capitalism; the beginning and the end of all production. For the credit theorists, money is not a commodity, rather it is a 'unit of account,' an abstract measurement of debts and their payments. Money represents the abstract labour congealed in the commodities
produced during capital's circuit, and as it is not a commodity, its purchasing power is derived from its ultimate command over labour power. The general equivalent can be redefined as the purchasing power that confronts labour power; the commodity nature then, of money, falls away. The only necessary feature for money to take up this form of value, is for to be socially accepted, or perhaps enforced (Rubin, 2010; Messori, 1997). That money should something enforced upon a society is an interesting thought that has been explored by Forstater (2005), de Brunhoff (1976) and also by Ingham (1996). Common among them, is the notion that wage labour and the development of the capitalist social relations, required the service of an authority to impose taxes and other means to have currency accepted and used for payment. In light of the historical development of capitalism, the increasing commodification of human life that went along with it, this seems a plausible, suggestive idea. Without being a commodity, money nonetheless remains a precondition for capitalist society.

It has been continually argued that in understanding capitalism, one must have a 'monetary theory of production,' as is attributed to Keynes, and not some myopic study of 'real' economic forces as has been the predominate position of neoclassical economics, taken to an extreme by Real Business Cycle theory. Money is that special, peculiar purpose of production in a modern monetary economy. As it was bluntly put by Veblen, 'The motive of business is pecuniary gain, the method is [...] purchase and sale' (2013, 16).

The point of any production process is the potential reward of revenues awaiting the successful capitalist; it is not the mere production and exchange of goods. Continually throughout his economic writings, Marx himself made it clear that money is the beginning and the end of the production process; money is indispensable to the circulation of capital. But while money is the end of production, it cannot be directly produced by labour (Wray, 2012, 266; Keynes, 1936, 232),
and here Marx's account of a commodity money runs into difficulties. The chief difficulty of Marx's commodity theory of money is found, as Bellofiore writes, when it recognised that money is not directly produced, but comes about as the outcome of a realized production process, or 'circuit' (2000); capitalist production requires 'anticipated finance' in Graziani's words (1997). In other words, the first determination of money consists in its function as a means of appropriation of labour power, that is, in its role as capital. Money serves as the general equivalent not due to its status as the end and origin of production—which it is, of course—but because it is the purchasing power of labour power, whose consumption by capitalists ensures them possession of potential surplus value.

The function of an acquiring a loan by capitalists, securing funds to pay for both wages and means of production, places some scepticism on the supposed 'commodity nature' of money. For example, in the commercial paper market, the most prevalent and widely used money-market, many large firms take on the trading and selling of unsecured promissory notes, short-term loans in other words, which they use to finance production. Issuers of commercial paper, generally large corporations take on debt in return for liquidity in the short-run, with the expectation they will produce enough output to cover the debt.

What is evident in such cases, is the procuring of money as capital before production has even begun. Now, if we limit ourselves to a society of capitalists, labourers, and banks, it is demonstrable that money is not a commodity. Capitalists, who happen to be short-pocketed before the exploitation of workers, take on debt to purchase the labour power of workers to produce commodities, which will putatively gain the capitalists surplus value and profit. Clearly, the capitalists have not paid labour in commodity money; the capitalists have hired the labourers for the pure sake of producing commodities; the commodities do not yet exist, and yet money is given
to labour. As Graziani (1997) questions, if money is the result of production, that is, if money is a commodity, how can it have existed before production even took place? As a commodity, money cannot explain the preconditions of the capital-labour relation, and cannot then serve as the basis for the exploitation of labour (Messori, 1997).

Another aspect of Marx's monetary theory, that of hoarding, also runs into issues if a commodity money is upheld. Since money possesses the potential to function as a store of value, what Marx called hoarding, an increase in the willingness to hoard leads to a lack of aggregate demand for the general economy, leading to a potential collapse of the economy. A glut, however, can only ensue if the demand for money as a store of value is not synonymous with a demand for production; if money were a producible commodity, an increase in demand for it would cause a partial crisis due to the readjustment of equilibrium, but it would not cause a general crisis.

For Say's law, a lack of aggregate demand would only arise if there is no resources devoted to the production of the money commodity. Money, to sustain the critique of Say's law, must be a non-commodity to ensure that Marx's possibility theory of crisis has some validity, and so pose the problem of effective demand within capitalist economies (Hein, 2006; Kenway, 1983). As Marx himself writes in the Contribution, 'Although circulation of money can occur […] without crises, crises cannot occur without circulation of money… The metaphysical equilibrium of purchases and sales is confined to the fact that every purchase is a sale and every sale a purchase, but this gives poor comfort to the possessors of commodities who unable to make a sale cannot accordingly make a purchase either' (1970, 96-97). As Parguez writes, 'Avec raison, Sismondi remarque que le système Ricardien n'est conforme ni aux faits ni au bon sens [With good sense, Sismondi remarks that the Ricardian system is not in line with facts or with common sense]' (1973, 838)
This premised nature of money is in contradiction with the theory of money held by Marx and by his 'orthodox' followers, who insist that money is a commodity, acquiring its value from expended units of labour-time in its production. While this may be the case, a credit theory of money can have the same 'material base' as the commodity is supposed to possess. If money is an abstract expression of value and wealth, where is the requirement that it should necessarily be a commodity? Industrial capitalists willing advance money in the form of capital towards the end of creating value to reap surplus value; realized on the market, commodities transform the potential abstract value congealed within them in the form of money.

The congealment of the value of social labour into its abstract form money (Marx 1976: 186), is a central concept for Marxian economics; through it, exploitation is demonstrated to be the source of profits within the capitalist mode of production. The dynamic process of capitalism and its cycle of production, Marx termed the 'circuit' of capital: a sequence of coordinated events, beginning with the accruing of funds, making it through the 'valorisation process' of production, ultimately reaching its ends as the realization of capital (Marx, 1981, 504).

By the value of money, we would not mean the labour-value embodied per unit of whatever commodity happens to function as money. This is the approach taken by Foley (1983). Rather, as Lapavitsas argues (2000), money in circulation equals the total socially necessary labour-value or abstract value produced in a given period. We are allowed, then, to be indifferent between whether commodity or fiat money plays the role of 'money as means of exchange.' This approach allows a Marxian account of money to agree with post-Keynesians that money is endogenous (Lavoie, 1984), but not that the value of money is arbitrarily determined; the value of money, as stated before, would be the abstract labour values of all those commodities in circulation for a given period. Whatever the theory of money espoused, it must be undoubtedly agreed that money would
be quite worthless if it had nothing to purchase; the point of money is to allow for the purchase and sale of goods. It is worthless to speak of 'worthless' money, money is both a social claim and a means of purchasing power, which from a Marxist, albeit Smithian, position as a command over the abstract labour congealed within commodities.

A Marxian Circuit Theory Approach

4.1 The Monetary Circuit

The theory of the monetary circuit was developed by French and Italian economists during the 1980s and has become a rather prominent position within heterodox thought (Lavoie; Seccareccia). Theoretically, it owes its genealogy to Kalecki (1970), Keynes, and Marx, and to economists influenced by both. Much of what Marx wrote in the 'Chapter on Capital' in the Grundrisse, his reproduction schemes in the second volume of Capital, and his writings in the third volume on 'interest-bearing capital' prefigures much of the theory of the monetary circuit. In fact, the sequence of the circuit—that is of how money is introduced into the economy and profits realized—follows the 'schemes of reproduction' that Marx presented to a remarkable degree, in spite of the fact as Graziani wrote 'that none of the authors belonging to the school seems to accept the Marxian theory of value' (1990, 9).

The theory of money upheld by circuit theory is that of credit money, and in this respect, money always emerges always as a debt or liability issued by a third agent (a bank) on itself, which involves as a counterpart a credit granted to buyers of goods and services within an economy; every transaction, then, entails the simultaneous creation and destruction of debt, and each seller of goods and services accepts this credit as payment on the grounds of its value (Wray 1998; 2012).

The monetary circuit begins with firms demanding funds from banks to finance their capital project or production process. Here money serves a role as capital, as Marx did well to note in the
third volume of *Capital*; it is lent out by the moneyed capitalist (the banks nowadays) to the industrial capitalist, with the intent of both to earn profits at the conclusion of business. Money is 'created' or 'produced' when firms take on debt from a financial institution, to finance their production process, but this money only becomes validated or 'real' money, once the production process has ended, profits realized, and payments on the debt and interest made. As Marx writes, 'it simply introduces this circuit, which is to be effected by the industrial capitalist (1981, 468).

Access to money before production begins is essential for the industrial capitalist, as Schumpeter stressed. It requires the separation of the capitalist class into two divisions: the money capitalist (banker) and the industrial capitalist (entrepreneur). Here there is obvious room for competition between capitalists, but that topic is for another time. What must be clearly seen, is that money originates prior to the circulation of commodities. And due to these prerequisite conditions, the entrepreneur must take on debt from the banker to take on his capital project, as Schumpeter wrote, 'He becomes a debtor in consequence of the logic of the process of development' (1961, 102)

In the second stage of the circuit, the production process and decisions of both firms and labour ensue; firms decide how much production is necessary, labourers decide how to spend their wages. Money spent on the commodities market, returns to the firms, and will then be returned to the banks as firms pay off their debts owed; the circuit is closed with this final movement. This is the 'Law of Reflux' developed by the Banking School in the 19th century, which has become the theoretical perspective taken up by contemporary Circuit Theorists; money is essentially debt issued by banks to finance the production processes within a capitalist economy; once profits have been made, the debt is paid off, and the 'money' is destroyed. It is a continually revolving process,
or 'circuit,' which has incredible similarities with Marx's schemes of reproduction as many have noted (Seccareccia, 1996; Lavoie ; Nell, 2002; Zezza, 2008).

There may, of course, be the slight complication that not all wages earned by the workers will be spent; a part of their earnings may be stored in deposits, resulting in firms having less than they initially put into investment. Not all of the debt, then, owed to the lending capitalists (banks) will be paid off, but it is reasonable to assume that interest payments on the debt will still be made. The problem is then how can firms collect more money profits than what has been collectively spent. The details of the issue of monetising profits, otherwise known as the 'paradox of profits' (Seccareccia, 1996), need not concern us for the purposes of our demonstration. Aside from others, the seeming paradox has been resolved by Godley and Lavoie (2007) and really deals with issues of macroeconomic accounting that are not relevant for matters at hand.

4.2 A Marxian Model of the Monetary Circuit

A Marxian circuit theory can be modelled, following the lead of Bellofiore et al (2000), Graziani (2003), Nell (2004), Feberero (2008), and Trigg (2004). There are three distinct classes in this monetary circuit: workers, industrial capitalists, and financial capitalists. The circuit is divided into these sequential phases: (1) banks create money to satisfy demands for liquidity by firms for production purposes, who then then hire labour power; (2) the production process ensues; (3) workers spend their money on wage goods, and firms then repay the initial debt they took on.

There is a class divide here, as, on the one hand, capitalists have privileged access to money, allowing them to undertake a productive activity and earn profits. On the other hand, labourers have only the freedom to sell their labour power to earn wages to purchase the commodities they produced, ensuring their reproduction as a class. Full employment, also, is not an assumed feature of the model; as much labour is hired as considered necessary by capitalists,
which imparts Keynes' theory of effective demand onto a Marxian circuit theory model. Firms have exclusive access to funds; banks have the exclusive role of 'creating' money, which is pure credit. Without money, the production process could not ensue. It is by necessity, as Schumpeter knew (1961, 102) that capitalists have access to credit, the means of purchasing power, to set their projects in motion; and if capitalist do not possess money capital then they will attain it. As Bellofiore writes stating a rather trivial point, 'capitalist circulation has meaning only if in so far as the amount of money at the end is expected to be higher than the money advanced at the beginning of the circuit' (174).

Adopting Kalecki's aphorism that 'capitalists get what they spend, workers spend what they earn,' the planned level of production for the consumer's goods sector $\phi_c$ will be

$$\phi_c = wN_k + wN_c$$

The consumption goods sector will then require financing or money deposits from the financial sector to the amount of

$$M_c = wN_k + \alpha \phi_k$$

Where $\alpha$ is the proportion of total investment expenditures from the consumption sector; while, on the other hand, the amount of money required by the capital goods sector will be,

$$M_k = wN_k + (1 - \alpha) \phi_k$$

The resulting amount of bank credit will then be,

$$M = \phi_c + \phi_k$$

And adopting the Kalecki principle, the amount of profits for the consumption goods sector will be,

$$\gamma_c = wN_k$$

And for the capital goods sector,
\[ \gamma_s = \alpha \phi_s + (1 - \alpha) \phi_s - wN_s \]

It must be admitted that this is a simple formal model, but it serves the requirement of presenting the circuit approach. A more elaborate model could be constructed showing how abstract value is embodied into the commodities; more sectors could be added, and the determination of the price level could also be demonstrated. Just as well, considerations of growth and employment could also be developed from this simple model. In other words, the macrodynamics of capitalism can be elaborated following the work of Skott (1989a; 1989b), incorporating aspects of the circuit theory into a dynamic model. But these issues are beyond the scope here. It has been sufficiently demonstrated that a Marxian approach to the theory of the monetary circuit can be provided.

**Conclusion**

The hinging of Marx's monetary theory upon a rigid commodity standard can be done away with; the central problem of crisis, is after all, the realization of the circuit of capital; commodities must be bought and sold for money to be successfully realized. Even in Marx's writing, the argument is not quite clear nor is it convincingly argued that money is by necessity a commodity; that money is a commodity, seems to depend much more on historical and social relativity than by any logically convincing argument. The underlying material presence of labour in the commodities whose value and wealth money expresses is enough; there is no need to argue, as Marx did, that money is by nature a commodity. Material production is directly necessary for the metamorphosis of capital into money.

The rest of his monetary theory can still be retained even though, the centre, so to speak, of a money commodity has been removed from it. As capitalism is a mode of production built around the accumulation and circulation of capital, which can only be performed through the realization of capital's circuit, its instability rests upon this feature of its structure. There must be
exchange and circulation of commodities for money to come about; there is no other way; credit extensions can put off, at least for a little while, an oncoming crisis, but it cannot be sustained. Obviously, this theory lends itself to Post Keynesian and Circuit Theory influences, but it seems to afford a more coherent, reliable theory than those furnished by other Marxists still upholding a commodity theory of money.
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A Conversation with Richard Wolff

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Over the last twenty five years, in collaboration with his colleague, Stephen Resnick, he has developed a new approach to political economy. While it retains and systematically elaborates the Marxist notion of class as surplus labor, it rejects the economic determinism typical of most schools of economics and usually associated with Marxism as well. This new approach appears in several books co-authored by Resnick and Wolff and numerous articles by them separately and together. Common to all of Professor Wolff’s work are two central components. The first is the introduction of class, in its elaborated surplus labor definition, as a new "entry point" of social analysis. The second is the concept of overdetermination as the logic of an analytic project that is consistently non-determinist. Professor Wolff was also among the founders in 1988 of the new academic association, Association of Economic and Social Analysis (AESA), and its quarterly journal Rethinking Marxism.8

Oeconomicus: If you were a graduate student studying heterodox economics, what areas of research, or topics would you be pursuing right now?

Dr. Wolff: There are so many I do not know quite where to start, so let me just shoot from the hip, as they say. I guess I would have as my general approach, those areas that are generally left out by conventional mainstream economics departments. Not to argue that what’s taught there shouldn’t be taught, but rather to argue, that what is taught there shouldn’t be the only thing that’s taught: and that is in a way the fundamental problem. The tragedy, and I use the word intentionally, the tragedy of an academic education in economics, in the United States, is that it is so abysmally one sided, lop sided, narrow, it is just awful; and it produces something that is remarkable about United States, which is a level of economic illiteracy that is extreme even by world standards. But here in the United States, what people don’t understand, even about the most basic economic realities, is frightening. In my lifetime teaching here in the United States I have attributed that to the narrow one sidedness that has basically made most people not only unaware of economic realities, but almost determinedly disinterested. ‘That is a scary area, a

8 Retrieved from Dr. Wolff’s website: http://www.rdwolff.com/content/about
mysterious area, an area for engineers, geeky types to focus in on technical, highly mathematical’; therefore, kind of beyond the reach of people to do or to even understand. You can see this in the mass media through the way it presents economic news: it is craziness. For example, endless stories, ‘the federal reserve is raising interest rates’. Well this is a public that has no idea why, what’s that about, what difference will that make. Maybe they can say, ‘I see, maybe my car payments will have to go up because the interest rates went up,’ but even that relationship is fraught with uncertainty. They don’t know, and after a while what people that don’t know do, when confronted with news or little bits and fragments, is to basically turn off and stop listening because it doesn’t add up to anything or come together in some sort of understanding. Then what tends to happen is a self-reinforcing cycle: fewer and fewer people pay any attention, and those people are the more specialized ones who begin to speak to themselves, which makes the rest of the population feel disinterested or excluded, and then you end up with sort of what we have today which is the esoteric. I will give you an example, the few newspapers today that have any kind of extended economic analysis, have a special section for it. It is almost as if they knew that this was only going to that very small part of the population that has some interest. The New York Times has a pull out section, as with many of the other major newspapers, and the rest treat it not all, or in passing, or as the great mystery that nobody can understand. Nothing kills a television program more than, ‘today we will be speaking with an economist’. Everyone rolls their eyes and goes, ‘I rather have baseball.’

With that said let me try to explain what I think the problem is and then I will get to your question. What is exciting about economics, what has always been exciting about economics is to understand, for example, why the economy bounces around. Why is the story of our family, whatever family you are in, a story about our grandparents struggling in the great depression or our parents struggling with the crisis of a lost job or that time when the community was in real tough shape? But those are questions about, among other things, how is the economy so unstable: I want to go right after that. Talk about teaching that relates to peoples’ lives by saying, ‘let’s talk about why it is so unstable’. Why do we have periods of time that are so unstable? Tons of people want a job who can’t have one, there family goes into a tailspin, their finances go crazy, and they may have to move, take their kids out of school: the things that make for the drama of our lives. Do you realize before even World War 2, even into the 50’s, it was obligatory in every economics department, that I was ever involved with, to have a course with
the name like the business cycle, which at least gave people the understanding that you are going
to learn about this up and down craziness. To use the current example, here is a generation of
students that for the first time are racking up tens of thousands of dollars of debt. We never had
that before: I never had that. What is that about? How did we get to an economic system that
says to young people you want a college degree, you have to have debt hanging over your head
when you graduate to mess up your life? Those questions about the big shifts and changes make
this an exciting topic, and I would teach that.

Second economics, like all disciplines, has different ways of going about asking and
answering questions. You know if were talking about young children you can justify, to a point,
not giving them the complexity of certain perspectives, starting them with one, so they can kind
of get their fingers wet and understand. But then always be honest and say, ‘look this not the
only way to do this. When you are a little older and can handle it we are going to give you, how
many others’, but when you’re a college student you are way old enough, and in fact you are no
longer doing them a favor by not giving them alternatives, you are stunting there education. This
is not appropriate. To give you an example, the one that I find useful, if you offered an
education to people in religions, would you teach a course that was actually southern Baptist?
Well no, because southern Baptist is a religion, but it is not the only religion, and a course on
religions should have a little about Christianity, Islam, etc. Everybody knows there are different
ways of thinking what religion is and practicing it, so what is this with economics. What is this
craziness? We have had a modern tradition of economics that is now two centuries or more, we
trace ourselves back to at least Adam Smith and David Ricardo, and as anyone knows who
studies the field, Adam Smith and David Ricardo wrote about capitalism. They loved it, they
thought it was the greatest thing, they celebrated its emergence out of feudalism: fine, teach
capitalism through the lens of people who think it’s wonderful. But from day one there were
people who thought it wasn’t wonderful. Who thought it had flaws, failures and weaknesses.
Some of those people thought it could be fixed and they did their theory that way. Other people
thought it is beyond fixing and that we needed a different system. In feudalism you had its
admirers and the critics, in slavery you had the people who loved it, and the same with
capitalism. What in the world would be the reason for not teaching the perspective of those that
are critical? It is shameful, it is also childish, and we have had fifty years of shameful
childishness, and I think your question is the right one because there is an enormous list of
everything that critics have developed and the literature there fills many floors of libraries of the people who have been critical. It is not three guys writing in a basement some place. That is just silly. There have been experiments in the world, some of which have gone very badly wrong, which is good so we can learn that some of the critics of capitalism went in the direction that we do not want to repeat.

Joan Robinson one of the greatest female economist of the 20th century, professor of Cambridge in England, she was once asked when she visited the United States how would you organize a curriculum, and I remember the first thing she said would be a course in the history of economic thought and a course in economic history. The two most important things for students to learn. Students have to have some idea of what has happened to the systems of producing and distributing goods and services, what has economics been all about. Not to be misunderstood, but let me be blunt, our students, and I have taught in half a dozen universities in the United States, our students have no idea what the history of economics is, they don’t know what feudalism was, they don’t know what a slave economic system was, they don’t even know how different capitalism was in the 19th century from what it was in the 20th from what it is today. That would be the first thing to gain a solid grounding in what are the different ways economies have been organized and the problems they have had. That would be the beginning of grounding you in what it really is you are going to try and learn and understand. The next thing would be to introduce the different theories that try and explain what it is your learning that happened. Instead we have students that are treated as though none of that is necessary, our very secondary and get right into the technical, how to think about it this one way. That is a narrowness and an abstractness that turns away anyone who is not the puzzle solver. I mean, to be blunt, over the years I have seen the students come into classes excited about what economics is in terms of the big picture and how to explain what is happening, and they leave. Most of them leave the subject, who is left: puzzle solvers, engineering students who can see the excitement about being presented with a model that is missing something or could be specified in a different way, or for which it is fun to figure out the solution: technical questions that take out of economics all of the passion and excitement. Much of the history of the modern world has been economic fluctuations, struggles between different groups who want the economy to be done differently, and who fight it out, sometimes militarily, other times through political parties. That is the passion and the excitement that is what is going on in the world today. If you abstract economics
from all of that and make it a little technical field, you are guaranteeing that people are turned off, disinterested and bored by the whole thing.

Therefore, I would teach economic history, alternative economic theories. I wouldn’t even call it history of economic thought because it makes it sound like it is ancient. I would teach that right now that people do not agree. If you are a Marxist you think of capitalism in a very different way and there is a whole theory of how to think like that, which leads to different policy solutions different political affiliations all of those things. I would teach the neoclassical economics, for sure, because that is one of the major strands, the classical economics, which comes out of Ricardo and Smith and Keynes. But give the students, who are old enough and smart enough, a sense of the passion of disagreement. You know it is passionate, because the vast majority of economic departments in the United States, for example, don’t hire Keynesians and wouldn’t dream of hiring a Marxist. Now I do not like it, but that is very passionate. You don’t want anyone else in your club and you get all wigged out if one arrives and says, ‘you know I am here and ready to go,’ there is an anxiety attached to that, what is that about? What is this child like terror at somebody a little different, who sees it a little different? I like to use myself as an example, because here I am, I have published a dozen books, the latest book is a comparison of different theoretical approaches. My colleague and I, Steve Resnick, we wrote this book and it was a fight among four publishers to get the contract, which was nice, it is nice to be the subject of a struggle like that. We decided to go with MIT press, MIT for the last half century has kind of been if not the number one economics department, well more or less. Paul Samuelson came up there, Solow, Kindleberger, and all of these other big names of the last 50 years in economics: so we decided to be published there. They wanted the book, and they did in fact publish it. But we chose it because we wanted a message to go to the economics profession, I mean what do you want us to do, we have done everything you wanted us to do, we have been to all of the best schools, we got all the good grades, we have written a million articles and a dozen books and we have come to the conclusion that a book that has become the best go to book for courses for comparative economic theory is published by the number one, but it doesn’t make any difference. When they say, ‘well there isn’t anyone to teach it’, what are they doing, it is so childish when you reject the book we wrote from MIT Press, it is dogmatic, it is rigid. So I would teach economic history and I would teach comparative theory, whether you do
that in a historical way I don’t really care, and then I would go into all of the passionate issues that people care about using the different theories.

   Have a course on poverty. Poverty was supposed to be eradicated three centuries ago. One of the claims capitalism made is that it would overcome the poverty of the mass of slaves or the mass of serfs, but we haven’t done that yet. Yes, the standard of living has risen for everybody but that was never the only issue here. The issue was the relationship, the relative poverty. We are not doing real well, and in the last thirty years it has gotten markedly worst. There is an issues people read about in the newspapers every day, an issue you will have to search long and hard in the United States to find a courses on. Which would have to go into how you explain it, what has happened to efforts to deal with it? We have had anti-poverty programs in the United States for a long time. They don’t work. Here is a course: why not, why is job training or food stamps or earned income credits or any of the other programs, why have they been so spectacularly ineffective in dealing with relative poverty. People will be fascinated with that. Here is another one, if you want a very concrete example, the last thirty to forty years have been a spectacular studies in the mass decision of capitalists to relocate geographically. That was not the case early capitalism. In the 18th, 19th, and 20th centuries capitalists basically stayed put. Car industries gathered in Detroit and built up its industry and then at a certain point they left. What is that about? Why do capitalists move, what are the social and economic consequences? What happens, let’s take Detroit because it is the most glaring example, what can happen to a city when capitalists, and remember the board of directors at Ford is a dozen guys, and the board of directors of General Motors is another dozen guys, and Chrysler one more dozen guys. That is thirty six guys altogether making a decision so that in 1960 the population of Detroit is two million, today the population is around seven hundred thousand. So thirty six guys made a decision that drove the majority of people, from a major city in this country, out. Why do capitalist relocate? Where do they go and what are the results for the company, for the workers, for the community from which they leave and to which they go? That is changing the world. The decision of those companies to leave the United States in the past forty years is part of what makes China the number two economy in the world. Nothing is more shaking the world we all live in than this is. We need a courses on capitalist relocation. This is a subject, and it is no answer to say an advance student having had lots of work can decide to write a dissertation in that area. Yes, that is true he could, but if you haven’t given him a lot of courses along the way,
the chances are slim. The number of dissertations on that topic is tiny. But that is not because students don’t have imaginations, and it is not because they don’t read the news and know that is an issue. It is because there is a gap between what their education focuses them on and what is passionate. So by the time you get to graduate program in economics it is too late. They are so busy, understandably, they want to be successful, they want to please the teacher, they want to get an A, and they want to do what the system is setting up as their goals and targets. Everyone is like that. We all want to succeed. So you have this terrible disconnect, and what the students are trying to master is taking them further and further away from what the passionate issues are in the field. That makes for students that will not be good teachers, because there is no passion. How passionate are you going to get about a constant elasticity of substitution production function and the twenty seven wiggles you can make with it? I mean, maybe for an engineer you can get into the math of it, but that is a limited number of people with a limited frame of reference. Economics is about the world of passion and fighting and politics and change and struggle and all the thing that make life interesting. Why would you want a profession to leave all of that excitement? Teach about conflict. The workplace is a place of conflict, everybody who has ever worked anywhere knows that. There is conflict among the workers are their supervisors, there is conflict between the supervisors and the owners, there is conflict among the workers. What about that, how that is shaped by the economy, and how does that react back and shape the economy.

People want to know about that because when they go home, if they are a student, their mother is talking about what she experienced on the job at dinner, and so is the father. Those things royal the family, so you have a natural connection to students’ interests. Why are mom and dad having those fights? Why, what is this, why is the workplace so conflictual? Could we set it up differently? You know, I make fun of capitalism often, when I get a chance and use the following story. Suppose you have and extended family and you get them all together for 4th of July. You happen to know that everyone gets along pretty well, except Uncle Harry and Aunt Louise, they can’t stand each other. Every time they get together they argue and the arguments get heated, and everybody has to take sides. If you were organizing the family picnic for this year would you ask Harry and Louise to be on the committee to set up the picnic? You wouldn’t, because that is crazy, these people hate each other. If you want to organize the production of goods and services, would you do it in such a way that one part of the process, the
owner, the operator, the decision maker, is in a conflictual relationship with the workers? That is nutty, because that is going to make their hostility and their conflict mess up the process. I always wondered why would you want to set up the production process such that the owners have every interest to minimize what they pay to the workers, look for every opportunity to fire a few, get a machine to replace them, or take advantage of every opportunity to hire someone they can pay less. At the same time the other workers are constantly trying to figure out how to get back at the boss for all of these things that they feel aggrieved about, so they do everything from smoking dope before going to the job that morning or taking a pencil home from the supply closet but that is how it often plays out. A psychologist would giggle, if you set up a process that brings together people with competing interest, because they know you are going have a problem. So how do you handle it? Well make the work process a cooperative. Say to the workers, ‘look we don’t want you in a conflictual relationship so were going to make everybody a worker and a boss’. You aren’t going to take it out of one pocket and put it in another, because that is irrational. ‘We are all going to be in this together and if we all work real well together then we are going to succeed, but were not going to talk about team work when one of us takes advantage of the other because that’s crazy’. You can have either everyone plays by the teamwork or there isn’t any teamwork, it is understood in any sports game. The coach tells you don’t be a star out there don’t run the ball into the end zone by yourself, because you need a blocker, you need this and you need that. We have to work together, because then we can do stuff that we cannot do on our own. What are you going to do when the workers all notice that Harry over there got fired, and that they are making the two people that they didn’t fire, do the job Harry used to, and they aren’t paying them anymore. They are just saving on Harry, and everybody knows what the game here is. So that leaves bitterness that shows up a thousand different ways as workers show up and they don’t trust the boss. These are the passionate issues of economics but where are they? Where is the course that is basic to economics, which says, ‘what’s the difference between a workplace organized cooperatively and a workplace that isn’t?’ I am not asking you a predetermined notion of what the right thing is, rather to look, their might be ways in which one is better than the other, while the other is better than the first one. Then we can ask a really brilliant question, is their some way to organize it that gets us the best of both of these? That would be a question I would be fascinated by. Maybe we could have a co-op, using an old socialist ideal, where were all equal, through rotation. By rotation I mean, some of
us are going to be temporary bosses because we get certain benefits about having a few people make keys decisions. Ok, so were going to have a worker co-op, that is how were going to run this business, but were going to have a board of directors, a vice president, a president, all of that, but it is going to be rotated. Then you know that you have to treat the boss in a particular way because you are going to be the boss. When you’re the boss, that boss is going to be your underling, and so we get the benefits of hierarchy without paying the price, because it is rotated. That is fascinating, why aren’t we talking about this? The question is why aren’t their courses about alternative ways to organizing a business? What could be more relevant to economics? What could be more important to young people who are not only students but who are about to graduate and go into an enterprise? So these would be some of the areas: economic history, alternative economic theories, major questions like the instability of capitalism, poverty, alternative forms of organization of enterprise. We don’t do that, and for me, that is tragic.

Because economics has always been about passionate issues, and speaking personally that is why I went into economics. I wanted to know, I thought at first, to study history and philosophy, because those were the issues that really excited me. I was originally a science student but I knew by the end of my first year in college that working in a lab was not for me. So I left chemistry and mathematics and went in economics, but first I was interested in history and politics, but to be honest as I studied history and politics it was always the economy that was shaping how things worked. Therefore, I kind of knew by the end of college, even though I majored in history, that you have to understand what the economy is and how it is working because is shapes so many other things. The economy is not the only thing but it is a big powerful one, and that why I came. I wanted to understand why and how the economy works like this, and what I learned in school was a constant disappointment, constant. I had the math back round so I wasn’t flustered by the technical stuff, but it wasn’t why I came and I just endured it. You know, my parents raised me, ‘a lot of things in life you don’t like but you have to get through them’. Ok, so I got through them, but this was no way to be educated and a lot of young men and women that I knew left economics, because they weren’t going to do something that was so arid that was so narrowly focused that was so disconnected.

Oeconomus: What advice would you give to a heterodox economist who is just entering the job market?
Dr. Wolff: When you are a professor you will learn, when you finish writing your Ph.D. and all that, it is very helpful when you are out there looking for jobs, to have professors who are hopefully well-known, who will write strong letters for you, but even better than that is a professor who will pick up the phone and who will call his or her counterpart at some school that you are trying to get a job at and be able to say, ‘hey this is an exciting student’. We got jobs for graduates from UMass because many professors around the country had figured out what I just said. They would call me up, and I would know these people, they were not leftist or Marxist, they were your standard neoclassical economists. But they said we have had it, we are not hiring another graduate from MIT, or Stanford because to quote, ‘they cannot teach their way out of a paper bag whereas your students can’. That is a real problem because in most colleges, economic departments are structurally set up in competition with other departments for funds so they go to the administrators, ‘give us money so we can hire another professor or we can have 5,000 dollars to give to the economics club for their activities or whatever,’ but they are always begging for money but all the departments are. Therefore, one of the ways the bosses, the administrators of the colleges decide how to allocate, is the ratings that students give or the reputation of the departments. So, these departments have discovered you can hire a hot shot from MIT who does math, but his classes will empty out because nobody wants this. They don’t want that because that means the enrollment in their classes are going to be small and the bosses are going to say, ‘I want Elizabeth’ because she will come in there and everyone will get excited’. Students will enroll and the economics department will look like it is doing a great job. So I would get calls from people and explain to them, in the hopes of doing what your questions asks change your curriculum, you don’t need to have people from our department, although I am glad you are interested. Because your problem is that you have joined in making this subject horrible for most people, so only the engineering type kids who get off on solving the little problems, they get into it because that is what they do anyways, but all the others are lost.

Oeconomicus: What types of courses would you, if you were a young heterodox economists just starting out in the field, be teaching today?

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9 Elizabeth Ramey, was a student of Dr. Wolff’s at UMass Amherst, and one of my professors at Hobart and William Smith Colleges.
**Dr. Wolff:** I would teach a course on Thomas Piketty’s book. I would say wow, and this again follows from what I just said, every country on earth—every country—is struggling right now with deepening economic inequality China is, the United States is, Japan is, and Europe is, not that that is all of the world, but that is a big chunk of it. Here is a book that offers itself as an explanation for how it comes to be that after all that has been said and done about the importance of not having greater inequality; we are all proverbial deer in the headlights, frozen watching our economy get more and more unequal, bemoaning it, at least most people, but being powerless. I mean what is going on here? Why is this happening? What would it take to stop it? Why hasn’t capitalism delivered on its promise: liberty, equality, fraternity, the French Revolution? We were supposed to overthrow feudalism to have capitalism and were supposed to get liberty, equality, and fraternity, but we are all still looking for it. I would read that book with groups of students and I would talk about the strengths it has, which is the empirical story. I would also go after two things: the diagnosis as to why, the notation that capital accumulates more rapidly that GDP and the equations, the fraction shift, I find that to be terrible economics, that is looking for the, there it is. There is no overdetermined, what is contributing to this craziness. It would be, for me, a lesson in the determinist argument as opposed to an over-determinist argument. Then we would read other books as an object for theoretical questions and critiques. Finally, I would talk about, and I would get books and articles for students, some of the social consequences of this kind of inequality. There you could do everything from politics, because that would touch students. Get four or five of the best articles you can find on Bernie Sanders and Donald Trump. You see what I am after, and the question would be, what is the connection between growing inequality and growing political support for such people? What is the connection between growing inequality and support for Jeremy Corbyn, who won, and was labor party leader in the UK? Why would Germany as the richest country in the EU now basically be on a driven, determination to drive Greece, another EU country, into abject poverty? What is the link, whatever it is, leave it open, no prejudgments? What connections can we draw through the literature that is available, which is immense, especially regarding what is going on in Greece, and Germany? You could pick writing from people like Yanis Varoufakis the finance minister of Greece. The reason he would be perfect is that he is an economist trained in the United States, fluent in English, writes in English, knows neoclassical, knows Marxian economic theory, and he writes in great detail about this.
The literature on inequality in the United States is enormous. You could even historicize it. In 1960, a book was published, very famous here in the US called, *The Other America*, by Michael Harrington. It caused an explosion storm. JFK, like Obama talks about the 1% after occupy Wall Street, well JFK spoke about the other America because of this book. And the book said that we Americans should recognize that there is another America, and that is the America of the poor, which is very large and everywhere, and how could we have become blind to what are fellow citizens are going through? Thirty or forty percent of them are living in terrible conditions and here we are, half a century later, the book could be written tomorrow and cause the same reaction. That is something. That’s where the great society programs come from, LBJ’s antipoverty, this and that, but here we are, and there are lots of books like this.

Here is another topic, technological change. Here is a historical conundrum, every major technological breakthrough in the history of capitalism has be justified, by those pushing it, on the grounds that is would free us from drudgery. You know the story, so for 200 years in the history of capitalism we have had technological breakthroughs and capitalism is technologically dynamic. So here is a question, why do Americans work more on average today than they did 50 years ago? Where is the leisure? There is none. There is something about the system that provokes technological change and progress and then cannot realize the benefits of it. What is that? I would read histories of technology. I would read analysis, not in order to get the details of the techniques, but rather to ask the economic questions. What went wrong here? Why has rising productivity not translated into less work or less exhausting work? My wife is a psychotherapist. She says everything she has done in her life teaches her that people today are more stressed about their work and their lives, than they ever were before. There are certainly psychological drugs to pep themselves up or calm themselves down. Stress is a major killer. Where is the leisure and free time?

Here is another one, the history and meaning of unemployment built around the following thesis: why is unemployment not understood as a social economic problem that demands a social economic response? Let me clarify what I mean. Almost everybody would admit that when you have sudden waves of unemployment like we did after 2008 or in the 30s or in the downturn of 74’ and 75’. You cannot blame the individual worker. You cannot explain that these people were laid off because suddenly they were bad workers. Even the right wing cannot
make that argument, because it is too crazy. It is a social issues. Something in the macro economy as a whole went screwy, and large numbers of companies laid off those workers. Not because there was something wrong with those workers, but basically because they could not sell what those workers were producing, which was not the fault of the quality. It is a social problem. If it is a social problem, and no individual or subgroup can be blamed, then wouldn’t the logic of the community, any community, be ok we have a problem and we need to share the problem. It is as if the police faced a crisis, a flood. A river goes over its bank and floods, and so it is decided that anyone whose house is painted white would be evacuated and everyone whose house is not painted white, have a nice death. People would say that is crazy. The mere accident that you devised at the last minute that sears was running a nice sale on white paints, so you put white paint on your house, and that is what is going to save you. Unemployment, how to handle it is obvious if you have a community mentality: everyone does less work. If you have ten percent unemployment, everyone works ten percent fewer hours: problem solved. It is called shared unemployment, and it is because it is not the fault of these workers. It is a social issues. In 2008 we suddenly had ten percent unemployment, but we don’t do that, not only do we not do it, but it is in some fantastic way off the charts. We don’t discuss it. It is as if it were so normalized that when I said to you, that people only rescue people in white houses, you said, ‘of course I know’ instead of going ‘what’?! Instead of having your brain question, saying, ‘what the hell is that about,’ assuming that is natural or normal, but it isn’t. And now suppose we read up on unemployment and instead of being a student you are a teacher like me. Think of the fantastic class conversations you could have by saying to students imagine with me, a society that had a law, that when the council of economic advisors declares that after studying the unemployment rate that has gone from six to nine percent, now over the next two months everyone needs to reduce the work week. For all the companies that say that they don’t want to reduce the work week because we are doing fine, the answer is fine, you reduce the work week and to make up for the lost hours of the workers you have you hire some more. How hard is this? By the way where did I get this from, in France this is a standard issue. Trade unions demand that one of the things, when unemployment goes up, the work week has to reduce, and it is a cultural value. And when the communist, who are very strong on unions there, the communist and the socialist go out into the streets with these unemployment ideas they get an instance social appreciation. Everybody is on board because you are a stinker if you are against it. What kind
of person is going to go, ‘I don’t want that, I want to keep my job and give up nothing and those people have full time unemployment while I have full time work’? We all suffer a little so our fellow French men can get a job. By the way, I have run for office. I ran for mayor of New Haven, Connecticut, and when I went and spoke to unions this was one of things I talked about. It was electric, and these unions guys have never heard of this, you know it is America, and these union guys couldn’t get over this. Shared unemployment think what it would do. New Haven is a town divided between a white working class, a black and Hispanic lower income working class, and the elite of Yale University. I lived most of my life there, and everybody was always talking about racial tension between mostly Irish and Italian white working people and the black and Hispanics. When I ran for mayor I said, ‘imagine what would happen to the bad relationships between white and black working people, if the white working people share the unemployment and went to their black brothers and sisters are said were going to take 5% less so that you get a job’. Overnight you would see things you couldn’t even imagine. Tears from the other part of town about, Jesus had arrived or something. When you talk to people about this stuff they get so excited, it is the opposite of the normal economics. I would do this in classrooms, and students would not want to leave after the hour was up because they were all excited. There are some that are for and some against and the others can explain, without being mean, you should stop with these old ideas, and it is amazing. Therefore, the way I would teach it I would organize these kinds of topics, give the students exciting readings about these issues, but then shape the conversation to link the economics to the social, the engaging aspects.

**Oeconomicus: How can we reach a broader audience being heterodox economists? You have obviously been very successful in doing this, being a heterodox economist. How can we do better, if we aren’t doing well enough, or are we doing the best we can in the system we are operating in?**

**Dr. Wolff:** That is the right question to ask. I am taken aback a little bit by not knowing how best to answer that question. Well let me start with your kind remarks about what I do, and I know this sounds a little immodest, but I will say it any way. More of you, the next generation of radical economists, should be doing what I am doing, you really should. First of all, the audience is there. Don’t let anyone tell you it isn’t there, and don’t let your colleagues or your teachers, I mean not here because you are in a special place, at UMKC, you really are, but in the
profession over and over you will be told nobody wants this, nobody cares about this nobody will listen to this, and that is wrong. That is an ideological advice given to justify their own decision about what they are doing by making you believe that there is not rational path for you to take. Here is what I would say to you if you want to change the way the economy and the society works, people are more willing and interested to hear critiques of capitalism, and that is exactly what I mean critiques that explain why this system has the qualities that most people in America are not comfortable with: the widening inequality gap, the poverty, people working their asses off and still into debt up to their eye balls. Those questions are urgent and in the mind of the people. If you have an assessment of how the system is producing those problems, there is an audience for you. If you want to change this, and you have done enough work to be able to say you have a pretty good idea of why some of these things have happened and they occurred in the system, then there is an audience for you. I would encourage you to get out there and do it, number one. Number two, and in no particular order, the trade union movement in the US is unspeakably weak. It has been declining in its size and strength for 50 years and it is arguably on its last legs, it is real tough shape: but the dialectic always works. So there is always a contradiction, and the contradiction is that because it is so weak it is very vulnerable; therefore, a determined group of young people wanting to move into the labor movement and who are willing to work can change it. Not without obstacles and resistance. It is not going to be easy, but it is possible because they are desperate. You will discover, for example, if you go into an academic setting, the academic unions are dead and weak, and that is when they exist at all. A group of three or four faculty members of a college will make or break a union, if they have one or create one, if they are committed. So you can do that, and particularly, if you were unionized or could form a union, that would give you an immediate entry point for talking to other unions in the area. You could connect to that area.

But I would never sell short, I don’t like to disparage the way some of my fellow radicals do, teaching. Teaching can be a revolutionary activity. I mean look at you, something happened to you when you went to Hobart and William Smith Colleges and people connected to you and blew your mind. They opened you up, transformed, whatever words captured what happened to you, it was extremely powerful. Can you reproduce this experience for 500 people in the next ten years, and the answer is in the classroom you might. Wow, multiply you by 500 people, all over the place, and I know whether it is Erik who was a student of mine that I always, and I
mean I didn’t say it to the people who hired me because it would have scared them, but I always have been political, always an organizer. Yes I was a teacher. I was the kind of teacher who, I used to say to myself, I wish there was a political party that I could get excited about because then I could say to the student at the end of two-three years of studying with me in some school, now you are going to graduate, and I wish you all the good luck in the world, but go join that party. It is like you classes, your home, where people like you get together, that is where you share you experiences, where you can figure out how to best change the community. I had no place to send anyone. What I want is you, I mean not you personally, although who knows, it has to start somewhere; we need in this country a new political, I don’t know what noun to give you, you could call it a party, a formation, a movement, a I don’t know other words. The people who do it have to decide what that word is. That is what the United States desperately needs: a place for people who are critical of capitalism to gather. Reinforcing each other, argue about their perspectives, producing literature, videos, and speakers. How they see the world, and utilizing all the forms of communication, to share that message. It should be a constant influence on the community to shape the discourse about what is going on in the world. Imagine if we had, over there on the table where the newspapers are, newspaper of the (blank) political movement, right next to the Wall Street Journal and New York Times. Leave the Wall Street Journal and the New York Times there, that’s fine, but there is the (blank) political movement paper as well. Imagine, if everyone who comes in here, and this is the ways it is in France, there is the right wing newspaper, the middle of the road tending left, and then there is the communist party newspaper, and your typical person grabs them all, and looks through them. This is smart because you get all perspectives, and that is what they want. Then there people decide to go with the right wing or the left wing, but we don’t have that in the United States. There is no source emitting this kind of stuff for people to encounter in their daily lives. Everyone now knows the name Trump. The man has now gone from a lunatic real estate weirdo, into a household name because he is everywhere. News should be everywhere, from all sides, then there would be a natural outlet for the economics. You and your generation could produce it. That would be the natural place for people who say, ‘you have persuaded me, I think the system has cracked, I think we can do better’. Then they come with their anger, which is what you want a population engaged with you: excited, looking for alternatives, asking for something new. Now go to work and give them an answer. Give them three! Give them six! You know that is why I am working
on worker co-ops, because the first two years I spent running around the country giving people an explanation of why the crisis happened and people loved it. But they began, more and more to say, ‘I got that but now what’, and I had to come up with something. I couldn’t come up with the Soviet Union and China because they have gotten such a bad reputation, even though people don’t really know what happened there, but as soon as you go in that direction you have lost them. So I don’t do that. I am not stupid I just got them and I do not want to lose them, you know; so the worker co-ops were a way for me to say 90 percent of what I needed to say in a way that would translate. People hearing about this never thought of it that way. It is a solution, ‘you want one and I got one for you’. So I can do a critique of capitalism and when you buy into that I now have a place for you to go, and a way for you to move forward, which does not require you to think of the government as the solution for every problem. How to coordinate these co-ops is the point where you need some overarching body, but it is the last thing I come to, because I can only be successful with that stuff once I have them the rest of the way. So I bring them with me to the point and when they are far enough developed, then we will talk about the overarching. But we are not going to start with that, because history closed that avenue off for us given what happened in the USSR and China.

Oeconomicus: Thank you for your time.
Announcement

Oeconomicus:

Call for Papers: We are currently soliciting submissions for our 2016-2017 is of Oeconomicus, and welcome full-length articles, book reviews, interviews, or comments. Submissions should be no more than 5000 words and should be submitted in MS Word format. All editorial inquiries and submissions should be sent to the editor, Jacob Powell, at JPKX7@mail.umkc.edu. The deadline for abstracts is January 15, 2017. The deadline for final papers is March 1, 2017. For further information about detailed instructions for authors, the journal, the Economics Club, and/or the UMKC Economic Department please visit our website: http://cas.umkc.edu/economics.

Oeconomicus is an annually published interdisciplinary journal of economic issues written, refereed, edited and published by undergraduate, MA, and PhD students in the social sciences. The focus of the journal is on critical or heterodox approaches to issues of economic methodology and theory, history of economic thought, economic history, political economy, and economic policy. All heterodox traditions within the social sciences — including but not limited to—Post Keynesian, Marxist, Institutionalist, Austrian, Feminist, and Poststructuralist/Postmodern are welcomed. The journal is sponsored by the Economics Club at the University of Missouri-Kansas City.

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