

# Political Economy: Past and Future

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Tel Aviv and Montreal, November 2003

<http://www.bnarchives.net>

This text is forthcoming as a preface to our Korean book *Capital As Power* (Seoul: Samin Books, 2004, translated with an introduction by Gibin Hong).

Political economy first emerged in the eighteenth century, together with the rapid expansion of capitalism and the industrial and scientific revolutions. It was a new theory of society. But it also carried within it the unmistakable hallmarks of a new cosmology: the *mechanical world view*.

The inventors of this new cosmology were Kepler, Galileo, Hobbes, Locke, Hume, Leibniz, and, above all, Newton. The universe they created was a model machine, complete with a blueprint of systematic, immutable principles. These principles, or 'laws of nature,' may have been created by God. But once created, they were no longer messed with. The blueprint of nature was ironclad, forever. And because nature was both systematic and permanent, it could be deciphered and understood by science, and science alone.

The socio-political implications of these ideas were truly revolutionary. With science taking the lead, politics and religion no longer had a say in matters of nature. In fact, the new cosmology implied that politics and religion should also have less to say in matters of society proper. If the 'machine' was the perfect model for nature, it also must be the perfect model for humans. The closer a society got to mechanical perfection, the closer it resembled God's will, and the road to this perfection went not through the palace of the King or the Vatican of the Pope, but through the halls of science.

These ideas are easy to discover in Adam Smith, the founding father of political economy. For Smith, who wrote in the eighteenth century, human beings were isolated bodies. They related to one another not organically, but mechanically, through attraction and repulsion. The process was energized by 'scarcity' and 'wants,' and mediated through the mechanical forces of 'supply' and 'demand.' To the naked eye, the interaction seemed accidental, a matter of chance for better or worse. But in fact, there was logic, and indeed order, in the chaos.

The hierarchical structure of the ancient regime was replaced by the flat mechanism of the 'invisible hand.' Social order, which previously had been imposed by God through the clergy and the royalty, now was created by 'competition.' It was just like in nature. The anarchic interaction of natural bodies led

not to chaos but to equilibrium, and the same held true in society. Human beings constantly collided and acted on each other through production and consumption. Like natural bodies, they, too, were numerous and relatively small, and therefore none could take over and swallow the others. There was no visible guidance, and none was called for. The system functioned like clockworks, on its own. Indeed, it was 'outside intervention' – particularly by monarchs and commercial monopolies – which upset the spontaneous social order. And since this spontaneous order was the ultimate source of wealth, 'government intervention' and other 'restrictions' were necessarily harmful and should be minimized. The best system was one of *laissez faire*.

Newton's horizontal notion of 'force and counterforce' became the substitute for vertical hierarchy, in the heavens as well as on earth. In France, Voltaire and Montesquieu found in his ideas a powerful alternative to the oppressive French monarchy. Benjamin Franklin and other exiles imported these ideas to the United States under the guise of 'checks and balance,' which later appeared as 'countervailing powers.'

During the nineteenth century, Newtonian 'functions' invaded every science, natural and social. More and more phenomena were thought of in terms of a 'mutual interdependency' between two bodies. In economics, the key function was the relationship between 'price' and 'quantity.' Neoclassical economics, which emerged at the end of the nineteenth century as the new orthodoxy, made Bentham's 'calculus of pleasure and pain' the main tool for understanding the fate of human societies.

These original ideas of political economy have had an enormous influence and remain central to the way most people think of their society today. Among the many influences of political economy, three seem particularly crucial. The first was *egocentrism*. In their 'natural state,' went the argument, human beings lived separately, not collectively. In general, they knew what was best for them and they did not need supervision. Their freedom lied in the private sphere. The public sphere, by its very nature, was the realm of coercion and domination.

Egocentrism was intimately link to a second idea, the *market*. The market was the method by which the private economy was finally 'separated' from public politics. The process was hard and drawn out. Although human beings were egocentric in 'their nature,' it took time for this nature to manifest itself in the way they organized society. Early social life was collective, dependent and coercive. As a consequence, most people were poor. It was only with the advent of individualism, the division of labour and mutual interaction that people grew more prosperous.

The crucial mechanism in this development was the 'market.' Wherever the market came to rule, wealth and freedom multiplied. In societies where command and authority continued, so did poverty. It is of course true that even market societies need some collective arrangements. But these arrangements

work well only when they are voluntary; when they are limited to the provision of public goods and the repair of market failures; and, most importantly, when they are easy to undo. Otherwise, social relationships are best mediated through the market. The market is the most effective way to express what we want, to provide information, to spread technology, to increase efficiency. It is the finest defence against power and authoritarianism. It is the best democracy money can buy.

The third, and perhaps most revolutionary idea of political economy was *capital*. In pre-capitalist societies, the conflict between slaves and masters, or between rulers and ruled, was always laid bare. In order to legitimate this conflict, there was always a need for an impersonal ‘third force’ – most commonly, religion. For this reason, Oriental peasants had to accept their despots as God’s incarnation on earth (*Islam* means ‘acceptance’ of God’s will and the punishment of infidelity). Their Western counterparts were similarly forced to accept their kings, princes and lords – or risk Hell as promised by the clergy.

The emergence of ‘capital’ offered a radically different alternative. The private ownership of capital, unlike the ownership of slaves or land, was neither divine nor monopolized. In principle, anyone was free to become a capitalist. And this freedom, the combined outcome of the French Revolution and the Industrial Revolution, spelled a new political order. Prosperity no longer required submission to prince or king. Wealth no longer needed the blessing of the church. A new phenomenon, called *economic growth*, pushed these two institutions onto the sidelines. In contrast to pre-capitalist societies, which merely reproduced themselves, capital enabled society to expand and develop. For the first time in history, well-being depended not on redistribution through conflict, but on the peaceful and mutually beneficial operation of markets which allowed capital to *increase* the total pie.

In the eighteenth and nineteenth centuries, these ideas made political economy a liberating ideology. But the world has changed since then, while *basic principles* of political economy have not. And so, eventually and inevitably, political economy, including its radical branches, became a conservative ‘discipline.’ The specific ideologies and methods of political economy changed a great deal, of course. The Marxists, neoclassicists, neo-Marxist, Keynesians, neo-Ricardians and monetarists, all had something new to say. Their innovations were numerous and included, among others, the dialectical method, the production function, mathematization, econometrics, the ‘macro’ economy, business economics and theories of finance. And yet, none of these approaches and techniques managed to transcend the mechanical cosmology of Newton and his generation.

All branches of political economy remain anchored in the public-private duality. Regardless of their ideological persuasion, they all separate the ‘political’ sphere of whim, desire and conflict, from the ‘economic’ sphere whose plot

rarely deviates from the iron laws of nature or history. All political economy is based on equilibrium (or its deviant, 'disequilibrium'), which in turn requires common units and, therefore, an underlying immutable 'substance.' And indeed, when Milton Friedman declares that 'there is no free lunch,' he simply echoes Antoine Lavoisier, the eighteenth century French tax collector who invented the Law of Conservation of Matter. Following Lavoisier, political economists, both Marxist and neoclassical, came to believe that there was 'intrinsic equivalence' in production and exchange. Value and utility, much like mass, could neither disappear nor be created out of thin air. The commodity's value was 'transformed' labour and utility was 'transformed' productivity. According to this principle, 'real' and 'financial' capital were two sides of the same thing. The 'machines' on the left side of the balance sheet must, by definition, equal the 'assets' on the right hand side.

These beliefs have become difficult to sustain in our day and age. Relativity, quantum physics, chaos theory and the invention of the hologram, to name a few, have challenged received notions of subjectivity and objectivity, space and time, substance and matter. Similarly, the eighteenth and nineteenth century beliefs in the 'efficiency' of markets, in the 'democratizing' impact of capital, and in the separation of 'politics' from 'economics,' seem a bit naïve at the dawn of the twenty-first century. The very categories of political economy – such as 'labour' and 'capital,' 'market' and 'state,' 'production' and 'culture,' 'value' and 'price' – no longer have the definite meaning they once seemed to possess. The massive anti-globalization movement and the growing revolt by economics students against the autistic teachings of their neoclassical textbooks are two manifestation of this breakdown. Heavy financing by government and business, collaboration from the universities and the tight grip of the ruling classes over the mass media help keep the edifice of political economy standing. But intellectually, it is a crumbling structure.

The time is ripe for a change – and yet, change always offers both opportunity and danger. The vacuum created by the inadequacies of political economy has been filled with postmodern 'deconstruction' of 'instrumentalism,' 'culture' and 'identity.' It is fashionable these days to fly to a conference in a modern jet, a high-tech computer on the lap, and write an article full of scorn against 'modernity,' 'progress,' the 'enlightenment' and 'scientific truth.' But this combination of arrogance and ignorance is not the way to go.

It is true that human beings 'invented' physics and chemistry, along with the stars, the electron, radiation and everything else we 'know' about the world. It is also true that their quest was motivated by power as well as curiosity. But these inventions were not arbitrary, *and all postmodernists know it full well* – for otherwise they would not hesitate to put their heads into a working microwave oven, would they?

Political economy may be broken. It is certainly out of tune with social reality and the many challenges to its mechanical world view. But postmodernism cannot fix these problems. The answer is not to abandon universalism, but to think of a better universal theory. Not to reject order, truth and harmony, but to look for them in a more open, democratic way. We need to revisit the core ideas of political economy against the context in which they evolved. We need to look at how the world has changed. And as we do so, we need to *reinvent* our categories and theories. Our task is not only to dismantle the old political economy, but to build a new one.

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