The Methodenstreit Revisited: Marginalism and the Lost Power Context

Kevin Carson

Center for a Stateless Society

The *Methodenstreit* was a long-running and fairly acrimonious debate over the methodology of economic science, between Carl Menger (posthumously regarded as the founder of Austrian economics) and Gustav Schmoller of the German Historical School, which eventually drew in many of their followers. Menger is widely viewed — particularly among Austrian economists — as having won that debate. But there are enough fundamental issues with marginal utility theory, specifically regarding its inadequate treatment of institutional and power issues, that the debate is in my opinion worth revisiting.

I. The Points at Issue in the Debate, and Menger's Critique

Menger on the Historical School. The defining feature of the Historical School, as Menger described it in his initial 1883 salvo in the debate, was the belief

> that social phenomena in general and the phenomena of national economy in particular gained a special character through national individuality, through local conditions, and particularly in virtue of the developmental stage of society; they showed spatial and temporal differences which could not be without determinative influence on the laws that applied to them. The desire for universal and immutable laws of national economy independent of spatial and temporal conditions, and thus the desire for a science based on such laws, seemed from this point of view to be inadmissible and misconceived; it seemed to involve an undue abstraction from the "full empirical reality" of phenomena.[1]

But writers of this school, Menger objected, rather than being "concerned with economics" were actually "occupied with historical studies in the field of economy...."[2] Their "desire..., justified per se, to do away with the unhistorical tendency in *theoretical* economics has led... to an abandonment of the theoretical character of economic science," instead substituting "historical research, the *writing of history*," for "theoretical research."[3]

By its nature, a science of economics must necessarily treat economic phenomena to some extent in abstraction from the subject matter of history and other social sciences, and follow a methodology proper to its own subject matter. "The view that economic phenomena are to be treated in inseparable connection with the total social and political development of nations is... a methodological absurdity...."[4]

> Truly the demand "that economic phenomena are to be treated in connection with the entire social and political development of nations" is rooted in the dim aspiration to carry

1 Carl Menger, *Investigations Into the Methods of the Social Sciences With Special Reference to Economics*. Formerly published under the title: *Problems of Economics and Sociology* (*Untersuchungen uber die Methode der Socialwissenschaften und der Politischen Oekonomie insbesondere*). With a new Introduction by Lawrence H. White. Edited by Louis Schneider. Translated by Francis J. Nock (New York and London: New York University Press, 1985), p. 24.
2 *Ibid.*, p. 43.
3 *Ibid.*, p. 48.
4 *Ibid.*, p. 79.

> the specific points of view of historical research over into theoretical economics, in an effort that is in contradiction with the character of the latter.[5]

Menger on the Proper Approach. The problem with the Historical School, Menger argued, was its failure to distinguish the proper respective approaches of the various sub-fields of economic research.

> We work at the development of theoretical economics by seeking to determine the empirical forms recurring in the alternation of economic phenomena, for example, the general nature of exchange, of price, of ground rent, of supply, of demand, and the typical relations between these phenomena, e.g., the effect on prices of the increasing or decreasing of supply and demand, the effect of population increase on ground rent, etc. The historical sciences of economy, on the contrary, teach us the nature and development of individually definite economic phenomena, thus, e.g., the state or the development of the economy of a definite nation or of a definite group of nations, the state or the development of a definite economic institution, the development of prices, of ground rent in a definite economic district, etc.
>
> The theoretical and historical sciences of economy, accordingly, do exhibit a fundamental difference, and only the complete failure to recognize the true nature of these sciences can produce this confusion of these with each other, or occasion the opinion that they can replace each other mutually. Rather, it is clear that, just as theoretical economics never can take the place of the history or the statistics of economy in our striving for cognition, not even the most comprehensive studies in the field of the two last-mentioned sciences, on the other hand, could take the place of theoretical economics without leaving a gap in the system of economic sciences.[6]

By its very nature, economics as a theoretical science must "understand a concrete phenomenon in a *theoretical* way… by recognizing it to be a special case of a certain regularity (conformity to law) in the succession, or in the coexistence of phenomena."

> In other words, we become aware of the basis of the existence and the peculiarity of the nature of a concrete phenomenon by learning to recognize in it merely the exemplification of a conformity-to-law of phenomena in general. Accordingly, we understand, e.g., in concrete cases, the increase of ground rent, the decrease of the interest on capital and other such things in a *theoretical* way, since the pertinent phenomena present themselves to us (on the basis of our theoretical knowledge) merely as particular exemplifications of the laws of ground rent, of the interest on capital, etc.[7]
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> The understanding of concrete facts, institutions, relationships, etc., in brief, the understanding of concrete phenomena, of whatever type it may be, is to be strictly distinguished from the scientific basis of this understanding, i.e., from the theory and the

5 *Ibid.*, p. 81.
6 *Ibid.*, p. 42.
7 *Ibid.*, pp. 44-45.

> history of the phenomena in question; and the theoretical understanding of concrete economic phenomena is especially to be distinguished from the theory of economy. The scientific activity directed toward establishing and presenting the theory of economy must, of course, not be confused with that which has for its goal the understanding of the concrete economic phenomena on the basis of the theory. For no matter how carefully and how comprehensively an individual strives for theoretical understanding of the concrete phenomena of economy — for instance, on the basis of the prevailing theories! — this still does not make him a theorist in economy. Only the one is so to be considered who makes the development and description of the theory itself his task.[8]

Theoretical economics is concerned entirely with "the exposition of the general nature and the general connection of the laws of economic phenomena, but by no means..., in the exposition of the nature and connection of individual phenomena of economy, i.e., in historical presentations...."[9]

But if the theoretical laws must be non-period-specific, and "types" are similarly to transcend history without taking historically specific forms governed by their own laws, we're left with the question of whether laws that transcend specificity in this manner will be so general as to no longer be *meaningful* or *useful* in any practical sense, without the addition of a large number of qualifications.

One possible path to resolving the issue lies in understanding Menger's distinction between the two major sub-fields of economic theory: pure, general (or "exact") theory, and empirical (or "realistic") economics.

His primary difference with the Historical School is his assertion of the existence of an "exact" (i.e. pure) theory which transcends societies and historical epochs. And this "exact" theory is an elementary, building block theory from which larger "realistic" (empirical) theories can be constructed that apply to particular historical circumstances. That is, it reduces real phenomena to their simplest or most basic elements, thought of as strictly typical, and attempts to determine their strictly typical relationships, their 'laws of nature.'"[10]

The aim of pure theory "is the determination of strict laws of phenomena, of regularities in the succession of phenomena.... It is the determination of laws of phenomena which commonly are called 'laws of nature,' but more correctly should be designated by the expression '*exact laws*.'"[11]

And in a later work he criticizes the Historical School because, although it "makes a serious effort to discover [the] laws [of social phenomena], in the sense of external regularities in their coexistence and succession," it nevertheless

> refrains from analyzing complex economic phenomena: it does not trace them back to their psychological causes or to ultimate component elements that would still be

8 *Ibid.*, pp. 45-46.
9 *Ibid.*, pp. 50-51.
10 *Ibid.*, p. 112.
11 *Ibid.*, p. 59.

> accessible to perceptual verification. Such a procedure cannot provide us with a *theoretical understanding* of economic events.
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> To be sure, many abuses have brought theoretical analysis into disrepute. This is especially true of efforts to arrive at knowledge and understanding of economic facts by way of an aprioristic construction.... [But i]n trying to avoid the mistakes of aprioristic social philosophy, and to a certain extent also those of the social physicists and social biologists, the Historical School has fallen into the still greater error of renouncing theoretical analysis, and with it theoretical understanding, of social phenomena.[12]

Although Menger was not — as the above quote indicates — an apriorist, his discussion of how these "exact laws" are arrived at based on "our laws of thinking," rather than mere experience, certainly suggests some influence on the apriorism of Mises.

> There is one rule of cognition for the investigation of theoretical truths which as far as possible is verified beyond doubt not only by experience, but simply by our laws of thinking. This is the statement that *whatever was observed in even only one case must always put in an appearance again under exactly the same actual conditions*; or, what is in essence the same thing, that strictly typical phenomena of a definite kind must always, and, indeed in consideration of our laws of thinking, simply of necessity, be followed by strictly typical phenomena of just as definite and different a type....
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> A further rule of cognition likewise highly significant for the exact orientation of theoretical research is only a correlate of the above statement. This is the statement that a circumstance which was recognized as irrelevant only in one case in respect to the succession of phenomena will always and of necessity prove to be irrelevant under precisely the same actual conditions in respect to the same result.
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> If, therefore, exact laws are at all attainable, it is clear that these cannot be obtained from the point of view of empirical realism, but only in this way, with theoretical research satisfying the presuppositions of the above rule of cognition.[13]

Now, by themselves, the universal concepts of Menger's exact, or pure, economic theory, are of limited practical relevance when stripped of all particularity, and all historical-empirical content. There may be formally valid universal laws that transcend the peculiarities of geography or of historical epoch, but the very thing that makes them universally valid makes them of limited practical use or relevance. To put them to practical use, the laws must be applied and interpreted by importing time- and place-specific content; it is this content that gives them meaning.

For example, marginal productivity attains its formally valid character by stripping away all context of property rules, power structures, etc. But the concept is largely meaningless in any practical sense without taking such contexts into consideration. Time preference — as Bohm-

12 Carl Menger, "Toward a Systematic Classification of the Economic Sciences," *Essays in European Economic Thought*. Translated and Edited by Louise Sommer (Princeton, New York, London, Toronto: D. Van Nostrand Company, Inc., 1960), p. 2.
13 Menger, *Investigations Into the Methods of the Social Sciences*, p. 60.

Bawerk admits (see below) — varies with wealth; so any analysis that simply treats time preference as a replacement for, or answer to, radical Ricardian or Marxist exploitation theory without addressing historical questions like the source of inequalities of wealth, such as Enclosure, are naive at best and disingenuous at worst.

As I argued in *Studies in Mutualist Political Economy*, marginal utility as a universally applicable paradigm is quite theoretically elegant, insofar as it eliminates the separate rules for goods in elastic and inelastic supply. But insofar as it frees itself from classical cost theories of value, it also becomes less relevant to describing real-world phenomena described by classical political economy, and effectively becomes dumber in not being amenable to the same real-world generalizations.

For example, it's arguable that a science of economics whose theory of price formation entails only the utility of the marginal unit under static, spot conditions, given an unquestioned existing distribution of quantities supplied and demanded, without regard to socially determined rules of ownership or power differentials, is irrelevant to any human purpose of economics itself.

The same is true of marginalism's subsumption of land as a form of capital. Again, it gains in theoretical elegance — or universality, or conceptual simplicity — by sacrificing relevant features of classical political economy like differential rent.

These are issues which I will discuss in greater depth in a later section.

But more than anything, the sacrifice of the particular or temporal for the sake of spurious universality obscures the fact that capitalism is a historical system with a beginning and an end. Indeed it was the Historical School's objection to "perpetualism" which was one of the central issues of contention between it and Menger.

Schmoller's own perception of Menger's argument, as stated in his review of *Investigations*, seems to reflect such concerns:

> Schmoller concedes that the institutional context does not matter "if theoretical economics is above all confined to the theory of value and price formation, of income distribution, and of monetary issue" — but in his own conceptual demarcation of economics, such a notion of economics "does not capture the general essence of the economy."...

He found fault with Menger on the grounds that he "always only thinks of exchange, value, money, etc., but not of the economic organs and institutions which constitute the bone skeleton of the economic body."

> Schmoller's accusation concerning the institutional disembeddedness in Menger's approach culminates in reprimanding him for presupposing the institutional snapshot of Western Europe as the context for his theory, thus sharing, "with the very old dogmatic

> economics," "the great methodical error to assume the essence of his time to be the general essence of the economy."[14]

Menger seems to acknowledge such problems, at least partially, later in *Investigations*. Specifically, he acknowledges that the character of the fundamental theoretical types and their relationships has evolved throughout history. The proper response to this issue, however, is not to compromise the general or universal nature of pure theory "by creating just as many economic theories as there are developmental stages of economic phenomena or as there are different spatial relationships of nations at the same developmental stage." Rather, it requires the coexistence of a separate, empirical or "realistic," side of economic theory.

> It can only consist in our taking as the basis of our presentation a specific state of the economy, especially significant with respect to time and place, and merely pointing out the modifications which result for the realistic theory from differently constituted developmental stages of economic phenomena and from different spatial conditions.... This would in truth be a *realistic theory of economy* with *consideration of the point of view of development* or of the *historical* point of view, if one wants to keep a more usual, if not quite apt, expression.[15]

And it falls to realistic economic theory, in particular, to address the changing character of economic phenomena over time.

> Besides... changes of concrete phenomena in time, experience makes us acquainted with developments of still another type.... I mean those developments which come to light not in individual concrete *phenomena*, but in *empirical forms*. For we can observe in numerous groups of phenomena which recur typically that their empirical *forms* let us perceive a gradual movement. They do this in such a way, to be sure, that the concrete phenomena of a particular type occurring later in the succession, as opposed to the earlier phenomena of the same type, show a difference, a development, which we will call the *general* development, the development of empirical forms....
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> Every single economic enterprise, every single economic institution, etc., exhibits for example an individual development which can easily be verified by observing it from its beginning to its point of decay. At the same time we can also perceive that the above phenomena are not always the same in their recurrence, but — just think, for example, of money — in the course of centuries have assumed different empirical forms....
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> ...The phenomena of private property, of barter, of money, of credit are phenomena of human economy which have been manifesting themselves repeatedly in the course of

14 Karen Horn and Stefan Kolev, "Dispute on Method or Dispute on Institutional Context? Foreword to the Translation of Carl Menger's 'Errors of Historicism,'" *Econ Journal Watch* 17(2) September 2020, pp. 447-448. Note: Because Schmoller's review has yet to be translated into English, I am, unfortunately, forced to rely entirely either on secondary sources or on Menger's own quotes or characterizations of Schmoller. In any case, since I am writing primarily in reaction against the "victor's history" and the dominant paradigm of mainstream economics, Menger's views are the ones most relevant to my purpose.

15 Menger, *Investigations Into the Methods of the Social Sciences*, p. 108.

> human development, to some extent for millennia. They are typical phenomena. How different, nevertheless, is their present empirical form from that of previous epochs....
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> The phenomena of human economy are thus not of strictly typical nature in time....[16]
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> ...Their general nature would thus be comprehended only imperfectly if we were to overlook this significant fact and confuse the nature of the phenomena discussed here in the present or in any period of their development with their general nature in an absolute sense, and if we were to confuse the conception of them with respect to the present with the conception of them in the most general sense. On the contrary, it is clear that the most general conception is not a static one, but the conceptual image of these phenomena in the totality of their development.
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> We have met the determination of the real, typical relationships, of the empirical laws of economic phenomena, as the second problem of the realistic orientation of theoretical research in the field of economy.... [I]t is immediately clear that the empirical laws established in respect to a certain stage of their development do not necessarily remain valid for all the remaining stages of their development.... Here it is clear that the empirical laws which were determined for definite stages of the existence of the pertinent phenomena do not necessarily retain validity for all phases of their development.... The empirical laws of the coexistence and the succession of the phenomena of the state of classical antiquity do not necessarily apply to those of the feudal state or a modern state, etc.[17]

In regard to the relevance of history for exact theoretical investigation, he writes: “Exact research reduces real phenomena to their simplest elements, thought of as strictly typical, and attempts to determine their strictly typical relationships, their ‘laws of nature.’”

> The empirical forms with which it operates are nonetheless thought of as strictly typical not only in respect to spatial conditions, but also to *temporal* ones. The development of real phenomena, accordingly, exerts no influence on the way in which exact research undertakes to solve the theoretical problem.... Accordingly, only the realistic orientation of theoretical research in the field of economy, and not the exact, has the task of testing the influence which the fact discussed here exerts on the nature of its results. It must look for ways and means to meet the above difficulty. The extensive investigations of our historical economists on the questions of "cosmopolitism" and of "perpetualism" in economic theory, in the form in which they have appeared up to now, truly concern only the realistic results of theoretical research in the field of economy, not the exact ones.[18]

This is not to deny that the exact orientation considers the historical development of economic phenomena.

16 *Ibid.*, pp. 102-104.
17 *Ibid.*, pp. 106-107.
18 *Ibid.*, p. 112.

> Exact theories are supposed to reveal to us the simplest and strictly typically conceived constitutive factors (susceptible of exact inquiry) of phenomena and the laws according to which complicated phenomena are built up out of the simplest factors. However, they fulfill this task completely only by providing us with this understanding in respect to each phase in the development of phenomena. Or, in other words, they do so by teaching us how phenomena are presented at each step of their development as the result of a regular genetic process.[19]

Now, as we will argue below, the method of explication Menger calls for — by applying the basic, or simplest, economic laws in the context of the phenomena of a particular historical phase — is precisely what marginalist economics by and large has *not* done since his time.

But at least as Menger himself discusses it, all these issues might be addressed through a proper division of labor between the pure/exact and the empirical sides of economic theory. And Menger himself stresses their complementarity. "The most obvious idea for solving" the theoretical problem of understanding and control

> is to investigate the types and typical relationships of phenomena as these present themselves to us in their "full empirical reality," *that is, in the totality and the whole complexity of their nature*; in other words, to arrange the totality of the real phenomena in definite empirical forms and in an empirical way to determine the regularities in their coexistence and succession.
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> This idea has also led in all realms of the world of phenomena to the corresponding orientation of theoretical research, the realistic-empirical one….[20]

But on examination, he continues, we find that it is not feasible to achieve this goal through the realistic/empirical orientation in isolation. To attempt to do so would lead to completely separate sets of laws and concepts for each era, thus thwarting the basic purpose of economics as a science.

> Phenomena in all their empirical reality are, according to experience, repeated in certain empirical forms. But this is never with perfect strictness, for scarcely ever do two concrete phenomena, let alone a larger group of them, exhibit a thorough agreement. There are no strict types "empirical reality," i.e., when the phenomena are under consideration in the totality and the whole complexity of their nature. This might be the case if each individual concrete phenomenon were set up as a particular type. By this the purpose and usefulness of theoretical research would be completely invalidated….
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> ….Strict (exact) laws of phenomena can never be the result of the realistic school of thought in theoretical research even if this were the most perfect conceivable and its fundamental observation the most comprehensive and most critical.[21]

19 *Ibid.*, p. 113.
20 *Ibid.*, p. 56.
21 *Ibid.*, pp. 56-57.

> If we derive from what has been said its practical application for theoretical research in the realm of economic phenomena, we arrive at the result that, as far as the latter are brought into consideration in their "full empirical reality," only their "real types" and "empirical laws" are attainable. Properly there can be no question of strict (exact) theoretical knowledge in general or of strict laws (of so-called "laws of nature") in particular for them, under this presupposition....
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> If there were only the one, just now characterized orientation of theoretical research, or if it were the only justified one, as the economists of the "historical orientation" in fact seem to believe, then the possibility of or the justification for any research aimed at exact theories of phenomena would a priori be out of the question.[22]

The realistic/empirical orientation of theoretical research, therefore, must be accompanied by the pure or "exact" orientation.

Nevertheless, the realistic orientation is also indispensable for its own unique contributions to our understanding of real-world economies

> It may... be admitted that the results of the realistic orientation of theoretical research in the field of economy cannot exhibit complete rigor. But from this it by no means follows that no regularities at all in the nature and connection of phenomena can be observed from the realistic point of view in the realm of the world of phenomena under discussion here. It does not follow that their determination is not of great significance for the understanding of economy and the prediction and control of its phenomena. On the contrary, wherever we look, economic life confronts us with regularities both in the coexistence and in the succession of phenomena....[23]

It follows that the pure, or exact theoretical orientation, and the empirical theoretical orientation, are complementary approaches that approach the same phenomena from different, but necessary, directions.

> Both the exact and the realistic orientation of theoretical research are therefore justified. Both are means for understanding, predicting, and controlling economic phenomena, and to these aims each of them contributes in its own way....[24]

And Menger appears to take an understanding of the historical context as necessary, at least for proper application of the realistic/empirical approach. This means, according to him, keeping history in view in the process of pursuing political economy's own unique theoretical goals — *not* transforming political economy into a historical discipline.

> If there is to be any question at all of a historical orientation in political economy this cannot mean the change of political economy into a "historical" science. It can, rather, designate only such a theoretical or practical orientation in research as keeps firm hold

22 *Ibid.*, pp. 57-58.
23 *Ibid.*, p. 64.
24 *Ibid.*, p. 64.

> on the development of social phenomena — and without meanwhile relinquishing the character of political economy as a theoretical-practical science…
>
> In *theoretical economics* the historical point of view is made valid when the development of economic phenomena is noted in its influence on the determination of empirical forms and the laws of economic phenomena. The theoretician in economics validly adopts the historical point of view when he keeps his eye on the development of economic phenomena in his research on the *general nature and the laws of economy*.[25]

The two approaches could, in fact, have been adopted in a complementary way. As Menger noted, the exact approach covers more elementary phenomena and "reduces real phenomena to their simplest elements."[26]

> Exact theories are supposed to reveal to us the simplest and strictly typically conceived constitutive factors (susceptible of exact inquiry) of phenomena and the laws according to which complicated phenomena are built up out of the simplest factors.[27]

So Menger's "realistic" or "empirical" theory seems to be — or at least to have had the potential for being — the intermediate body of thought that bridges the gap between fundamental or pure theory ("exact" theory), and the concrete analysis of economic phenomena in different societies or historical epochs.

In this schema, marginalism could have served as a theoretical mechanism to explain *how* the larger real-world generalizations observed by Ricardo and the classical political economists operated.

This, however, was not the approach taken. The heirs of marginalist economics, who received, further developed, and transmitted the basic models of Menger, Jevons et al, by and large used them in such a manner as to actively *obscure* or *replace* the empirical observations of Ricardo et al. And in the present-day intellectual climate which is the direct outgrowth of Menger, Jevons, and their heirs, the dominant interpretation of their self-proclaimed disciples is that the exact science of marginalism positively *disproved* or *refuted* the generalizations of classical political economy.

The error which the Historical School referred to as "perpetualism" — treating the phenomena and laws of a certain stage of capitalism as if they were a universal and eternal set of laws for describing economic phenomena throughout history, and ignoring the fact that capitalism itself is a historic system with a beginning and an end — is central to the ideological or polemical face of capitalist economics in our day.

The significance of marginalism has frequently been presented or framed so as to obscure previous common-sense observations about concrete phenomena, as if the deliberate goal were to make the theory less relevant or useful for such purposes. In practice, as we will examine in

25 *Ibid.*, pp. 97-98.
26 *Ibid.*, p. 68, 112-113.
27 *Ibid.*, p. 113.

greater detail below, marginalism has been used in a manner much like Newspeak — i.e., to *reduce* the range of thought and make the useful insights of classical political economy unavailable. Specifically it has served to obscure phenomena like the relation between cost of production and price, differential rent, and class exploitation, either making it virtually impossible to state them in marginalist terms or requiring the use of extremely roundabout language rather than stating them directly.

As a larger project, taken in the context of its relations to the intellectual climate in which it evolved, it seems at least an idea worthy of consideration that marginalism was promoted and advanced, specifically, for its usefulness in obscuring real-world observations like those of Ricardian economics and offering an alternative framework less amenable to radical interpretations.

And in so doing, it has essentially sabotaged the purpose of economic theory, as Menger stated it:

> The purpose of the theoretical sciences is understanding of the real world, knowledge of it extending beyond immediate experience, and control of it. We understand phenomena by means of theories as we become aware of them in each concrete case merely as exemplifications of a general regularity. We attain a knowledge of phenomena extending beyond immediate experience by drawing conclusions, in the concrete case, from certain observed facts about other facts not immediately perceived. We do this on the basis of the laws of coexistence and of the succession of phenomena. We control the real world in that, on the basis of our theoretical knowledge, we set the conditions of a phenomenon which are within our control, and are able in such a way to produce the phenomenon itself.[28]

The question is whether a science of economics that — to all appearances — deliberately obscures the insights of the body of theory it replaces, *can* in any meaningful sense serve this purpose of understanding or control.

I would argue that marginalism has gone so far in its search for theoretical elegance or simplicity, that it has reduced its usefulness for such purposes despite its formal validity. In the following section, I discuss the problem in greater depth, along with the forms of context that must be restored for marginalist theory to be of any use.

II. Restoring Context — Historical, Institutional, Class, and Power

As I suggested in passing in the previous section, the marginalist theoretical apparatus might have been adopted in a way that complemented the insights of classical political economy. It might have provided a mechanism for explaining how its observations worked. Instead, it seems largely to have been put in service of a political agenda aimed at actively *discouraging* such insights and observations, and making them *harder* to perceive.

28 *Ibid.*, pp. 55-56.

What Might Have Been, But Was Not — The Agenda to Endumben Political Economy. As I have previously suggested in passing, marginal utility might have been integrated into the main line of Ricardian political economy, in order to provide a more sophisticated explanatory mechanism for how the Ricardian cost principle operated. Instead, the early marginalists and their disciples seized on it as having supposedly "disproved" the law of cost — a claim uncritically repeated by pro-capitalist and right-libertarian polemicists to this day. As Böhm-Bawerk himself baldly stated: "Some declared that the creative principle and measure of value was the amount of human labor involved; others, more numerous, that it was the cost of production. Both definitions are false, as every one to-day knows."[29]

The widely repeated claim that marginal utility determines value, while technically true, is largely meaningless without further clarification.

For example: even though William Stanley Jevons normally stressed the blanket claims of marginalism as a "disproof" of the Ricardian law of cost or labor value, even he sometimes slipped up and admitted the claim was overblown. "Labour is found often to determine value, but only in an indirect manner, by varying the degree of utility of [the marginal unit of] the commodity through an increase in supply."[30] And elsewhere:

> Cost of production determines supply;
> Supply determines final degree of utility;
> Final degree of utility determines value.[31]

But that is nothing but a restatement of the classical theory itself, in more elegant language: the law of cost was held to operate precisely through the role of price incentives, with price gravitating toward a normal value just sufficient to incentivize bringing the good to market. As I wrote in *Studies in Mutualist Political Economy*:

> On the face of it, the bald assertion that utility determines value seems utter nonsense. The only way the supplier of a good can charge according to its utility to the buyer, is if he is in a monopoly situation which enables him to charge whatever the market will bear, without regard to the cost of production. But by qualifying this statement to treat marginal utility as a dependent variable determined by the quantity in our possession, he

29 Eugen von Böhm-Bawerk, "The Historical vs. the Deductive Method in Political Economy," *Jarhbücher für National-ökonomie* vol. LIV (July 1, 1890), reproduced at Mises.org <https://mises.org/library/historical-vs-deductive-method-political-economy>. This is rather ironic coming from Böhm-Bawerk, given his own challenge, in *Capital and Interest*, to labor theory advocates to defend it on some basis besides dogmatic appeals to authority of the "everybody knows" variety (*Capital and Interest: A Critical History of Economical Theory*. Translated by William Smart (New York: Brentanno's, 1922), p. 389).
30 William Stanley Jevons, *The Theory of Political Economy*. 3rd edition (London and New York: MacMillan and Co., 1888), p. 2.
31 *Ibid.*, p. 165. Indeed, both Alfred Marshall and Joseph Schumpeter observed that Jevons greatly exaggerated the significance of his differences with Ricardo (Joseph A. Schumpeter, *History of Economic Analysis*. Edited from manuscript by Elizabeth Boody Schumpeter and with an Introduction by Mark Perlman (Routledge, 2006 [1954]), p. 807, 887).

> makes it clear that the influence of value on price assumes a snapshot of the balance of supply and demand in a market *at any given time*.[32]
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> ...[M]aking scarcity and utility depend on the balance of demand and "present goods" at the present moment... ignores the dynamic factor. In taking the balance of supply and demand in a particular market at a particular time as a "snapshot," and deriving value from "utility" in this context, it ignores the effect of short-term price on the future behavior of market actors: the very mechanism through which price is made to approximate cost over time.[33]
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> Once we take into account changes in supply in response to changes in demand, we end up with a model in which the supply of goods adjusts to demand until the marginal price equals marginal cost; and the supply of factors of production, when it is elastic, will increase until factor prices reflect the cost of providing them. In other words, exactly what Ricardo and the rest of the classical school said.
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> The subjectivist utility and imputation doctrines, as stated, are true as far as they go; but they depend on taking the statements in other than the ordinary or obvious sense, and attaching special qualifications to them that render them irrelevant to the traditional problems of political economy. Perhaps that's just the point.[34]

Dobb remarked on the artificiality of the marginalist assumption — central, if normally unstated, to their bald claim that "marginal utility" or "supply and demand" determines prices — of fixed supply and demand at the point of exchange:

> Indeed, this is quite possible; but... subject to the restrictive condition that the set of n means or inputs is already given as *datum*. The restriction is a large one. It excludes from consideration all situations in which these supplies are likely to change (*i.e.* to change as a "feedback" effect of their prices), and analysis thus restricted can make no pronouncement as to why and how these changes occur or as to their effects — for which reason we spoke of the situations to which such a theory can apply as "quasi-short-period situations".[35]

This assumption of marginalist economics was shared by both Jevons and the Austrians.

Not only did the Austrian marginal utility theory assume fixed stocks of consumer goods at the point of exchange, but their imputation theory of factor prices likewise assumed a fixed stock of "higher-order goods." Dobb referred to the latter's "assumption of *given* supplies of various factors, with consequential demand determination of all prices."[36]

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32 Kevin A. Carson, *Studies in Mutualist Political Economy*. 2nd edition (2007), p 8.
33 *Ibid.*, p 14.
34 *Ibid.*, p 43.
35 Maurice Dobb, *Theories of Value and Distribution Since Adam Smith* (Cambridge, London, New York, New Rochelle, Melbourne, Sydney: Cambridge University Press, 1973), p. 182.
36 *Ibid.*, p. 114.

> If the situation is handled in terms of concrete capital-goods (dispensing with the genus of "capital" as a supposedly scarce factor), then if these goods are reproducible there should be no reason for any positive rate of profit at all in strictly static conditions. If all inputs other than labour are produced inputs, whence the specific "scarcity" from which profit is supposed to arise? If assumptions of full static equilibrium are consistently adhered to, then production in the capital-goods sector of the economy will tend to be enlarged until the output of goods is eventually adapted to the need for them.... With the supply of them fully adapted to the demand for them for purposes of current replacement, there will no longer be any ground for their prices to be above the (prime) cost of their own current replacement (or depreciation).[37]

In the end the relationship of marginalism to the classical law of cost was not of one theory "disproving" the other, but of two competing paradigms that explained the same phenomena — each of them being more useful for some purposes and less useful for others. As James Buchanan described it, marginalism was an attempt to apply the classical theory of value for goods in fixed supply to all goods, both reproducible and not.

> The development of a *general* theory of exchange value became a primary concern. Classical analysis was rejected because it contained two separate models, one for reproducible goods, another for goods in fixed supply. The solution was to claim generality for the simple model of exchange value that the classical writers had reserved for the second category. Exchange value is, in all cases, said the marginal utility theorists, determined by marginal utility, by demand. At the point of market exchange, all supplies are fixed. Hence, relative values or prices are set exclusively by relative marginal utilities.[38]

In other words, the marginalist approach seemingly offered the advantage of greater theoretical elegance over Ricardianism. But it came at the cost of real-world relevance.

> One frequently hears the claim made for a theory that it has greater generality than some rival formula; and on the face of it this plea seems cogent enough. But one would do well to be somewhat skeptical of such a claim, at least until one was sure that the greater generality had not been purchased too dearly at the price of realism.[39]

"It might appear" — and rightly so! — "as though this was to evade the essential problem by retreating into pure formalism, and that a theory defined in this way, and so emptied of real content, had reached a level of abstraction at which it was impotent to deliver any important judgment on practical affairs..."[40]

From the Ricardian focus on the actual institutions of capitalism, marginalism passed on to the sort of abstractions

37 *Ibid.*, pp. 205-206.
38 James Buchanan, *Cost and Choice: An Inquiry in Economic Theory*. *Collected Works* vol. 6 (Indianapolis: Liberty Fund, 1999), p. 9.
39 Dobb, *Political Economy and Capitalism: Some Essays in Economic Tradition*. Second revised edition (London: Routledge & Keegan Paul, Ltd., 1940, 1960), p. 127.
40 *Ibid.*, p. 171.

> which will necessarily prevail in any situation where "scarce means which have alternative uses serve given purposes." Something of the real world doubtless still lingers even in this tenuous definition. But hardly enough to make one believe that the resulting propositions can hold anything at all imperative for the problems of the actual world. If an economic law is a statement of what actually tends to happen, and not a mere statement of a relation between certain implicitly defined variables, then such propositions can surely be precious little guide to the "laws of motion of capitalist society" — or indeed, to any of the other matters on which they are intended to pass an economic judgement.[41]

But the marginalists' framing of the significance of their theory, as against both classical political economy and the socialists, was not simply a matter of error or misinterpretation. Their choice of one paradigm over another reflected, rather, an agenda. And the agenda was not simply the choice of greater theoretical elegance with the reduction in real-world relevance as an unfortunate side effect. The reduced real-world relevance was the primary appeal.

Already, starting roughly in the 1830s, there had been a politically motivated reaction against Ricardian economics — hardly surprising, given the way his findings (that rent, interest, and profit were deductions from the value created by labor) lent themselves to socialist conclusions.[42] At the same time, the political background against which economists wrote changed with the victory of industrial capital over the landed interests. In the face of Ricardo's treatment of profit, according to Dobb, economists

> sought to develop an explanation of profit along two lines — on the one hand, by inventing a new category of "real cost", for which profit was an exchange equivalent; on the other hand, in terms of an alleged "productivity" of capital (and hence, by imputation, of its creator the capitalist). It is these shallow and inconsistent theories which afford the principal evidence of that decline of Political Economy after Ricardo… which elicited from Marx the title of "vulgar economics".[43]

Marx himself observed that political economy shifted from an openly investigative, exploratory, or scientific stance — indeed a revolutionary stance against the landed and mercantile interests, and in favor of the nascent industrial bourgeoisie, at times — to an apologetic one.

> In France and England the bourgeoisie had conquered power. Thenceforth, the class struggle, practically as well as theoretically, took on more and more outspoken and threatening forms. It sounded the knoll of scientific bourgeois economy. It was thenceforth no longer a question whether this theorem or that was true, but whether it was useful to capital or harmful, expedient or inexpedient, politically dangerous or not. In place of disinterested enquirers, there were hired prize-fighters; in place of genuine scientific research, the bad conscience and the evil intent of apologetic.[44]

41 *Ibid.*, pp. 131-132.
42 Dobb, *Theories of Value and Distribution Since Adam Smith*, pp. 96 *et seq*.
43 Dobb, *Political Economy and Capitalism*, p. 57.
44 Karl Marx and Friedrich Engels, Afterword to the Second German Edition of *Capital* vol. 1. *Marx & Engels Collected Works* vol 35 (Lawrence & Wishart, 2010), p. 15.

Although Marx wrote these things about the generation of Longfield and Nassau Senior, it is equally true of the marginalist reaction against classical political economy (and particularly Ricardianism) in the 1870s, and even more so of the succeeding generation who further developed the innovations of Jevons, Menger, *et al* against Marxism.

Ernesto Screpanti and Stefano Zamagni argue that, besides the "internal" reasons for "the success of the marginalist revolution and its rapid conquest of hegemony" (namely its superior theoretical elegance) the "external reasons" (i.e., the institutional, political, and ideological needs it served) "are perhaps even more important than the internal ones."

> For some time, the Ricardian theory had been used for critical purposes by the socialist economists. In particular, the theory of surplus had been used as a foundation for a theory of capitalist exploitation. We have already mentioned that in the 1830s the 'anti-Ricardian' economists had been motivated, in their criticism of Ricardianism, by their intention to attack socialist theories. Forty years later, things were still the same. Jevons had little difficulty in linking himself to the English anti-Ricardian tradition. Walras was even more explicit when, in regard to the theory of interest, he noted: 'It has been a favourite target for socialists; and the answer which economists have given to these attacks has not, up to the present, been overwhelmingly convincing'.
>
> From the 1870s onwards, theoretical socialism rapidly tended to identify itself with Marxism, and unhesitatingly advanced strong claims to be a scientific theory. It was exactly against such claims that some of the second- and third-generation marginalists launched their attacks. We will limit ourselves here to mentioning the powerful 'Jevonian' attack that Wicksteed brought to bear on the Marxian theory of value in '*Das Kapital*: A Criticism', and the even harsher one attempted by Böhm-Bawerk.... But in 1893 Pareto was already looking at the matter with more 'detachment', convinced that 'the criticism of Karl Marx no longer needed to be made', as it was by that time implicit 'in the improvements brought by political economy to the theory of value'.[45]

This latter achievement to which Pareto alluded resulted from the marginalist theory of distribution which, as we will see below, eliminated class from the equation and assigned income to labor, land, and capital according to their "marginal product."

> In order that the criticisms of socialism, and of Marxism in particular, should not seem too ideological, it was necessary to focus on their analytic bases. But these were the same as those of classical economic theory. It was necessary, therefore, to 're-invent' economic science, reconstructing it on a foundation which would allow the deletion of the concepts themselves of 'social class', 'labour power', 'capitalism', 'exploitation', 'surplus', etc. from the body of the science. The theory of marginal utility provided the solution. Moreover, it seemed that it would permit the demonstration that an almost perfect kind of social organization would be realized in a competitive economy; a kind of organization in which

45 Ernesto Screpanti and Stefano Zamagni, *An Outline of the History of Economic Thought*. Second Edition, Revised and Expanded. Translated by David Field and Lynn Kirby (Oxford and New York: Oxford University Press, 2005), pp. 171-172.

> the market rules would allow an optimum allocation to be reached and, with it, the harmony of interests and the maximization of individual objectives.
>
> On the other hand, the resumption of a sharp and endemic social conflict made academic communities and political and cultural circles particularly receptive to the new theory. The first Workers' International was inaugurated in London in 1864, held its most important congresses in various European capitals between 1866 and 1872, and disbanded in Philadelphia in 1876. But then, in 1889 the 2nd International was founded in Paris, and this was much more fearsome and strongly influenced by Marxism. These aggregation processes of the revolutionary organizations were driven along by the powerful resumption of the workers' struggle in all the advanced capitalist countries. The period from 1868 until the mid-1870s was characterized by sharp conflict, almost as if all the repressed anger of the preceding twenty years of peace had exploded at the same time. The Paris Commune was only the tip of the iceberg of a movement which was much more widespread and longer lasting. And the violent repressions which followed these international explosions (1872–3 in France, 1873–4 in Great Britain and Germany, 1877 in the USA and Italy) had only temporary effects. The conflict began to manifest itself again, in more or less acute forms, during the 1880s, and continued for about half the following decade.
>
> There is thus no doubt that, when Jevons, Menger, and Walras presented a theory capable of averting attention completely from unpleasant problems, they were launching onto the market exactly the theory that was demanded.[46]

Although Jevons was probably unaware of Marx, and was focused instead on the socialistic implications of Ricardo, he was fully conscious of being engaged in a political project. As Maurice Dobb noted,

> although Menger could be said to have represented this break with classical tradition even more clearly and completely, Jevons was apparently more conscious of the role he was playing in reshunting the "car of economic science" which Ricardo had so perversely directed "onto a wrong line".[47]

Intellectual dishonesty and over-simplification aside, the apologetic contribution of this interpretation of marginalism was invaluable. This will be obvious to anyone who frequents right-libertarian message boards or email discussion groups, or reads the comments under articles at right-libertarian online periodicals. The triumphant claims that Böhm-Bawerk has "demolished" Marx, or marginalism has "disproved" labor and cost theories of value and demonstrated that claims of economic exploitation are nonsense, are too numerous to count. Such claims appear nearly as often by economists and polemicists in the articles themselves.

And whatever qualifications mainstream neoclassical economists might make when pressed, as a profession they are fully aware that they are playing to these groundlings and serving a political

46 *Ibid.,* p. 172.
47 Dobb, *Theories of Value and Distribution Since Adam Smith*, p.166.

purpose. Although economists will generally admit under pressure, for example, that Clark's marginal productivity theory as baldly stated is "purely formal" — observes Dobb — "it has been and continues to be used as an answer to the type of problem to which Marx's theory of surplus-value was framed as an answer, and hence as a refutation... for the latter." And despite all its technical flaws, as economists would admit among themselves, "the theory was immediately hailed as a complete reply to the classical problem of profit, rendering Ricardo and Marx obsolete." And despite all the flaws and qualifications which they might admit to Clark's theory,

> an important number of them, I believe, would subscribe to the view that there is some significant sense in which the theory could be said to show that the rule of competition "gave to each factor of production the equivalent of what it created". At any rate, whatever the private beliefs of professional economists, it seems not untrue to say that ninety-nine per cent of their audience understand some such conclusion to be implied.[48]

In the depoliticized new science of economics, the marginalists emphasized the allocative efficiency of the market, operating largely automatically based on marginal productivity of the respective "factors of production."

> After removing every sociopolitical connotation from the distributive problem, so as to be able to demonstrate that each subject receives a share of the national income proportional to his production contribution...
>
> ...the application of a general rule such as that of marginal productivity seems to satisfy two fundamental principles: the *principle of efficiency*, since the possibility is excluded that unproductive resources can be part of the distribution of income and can continue to be produced; and the *principle of equity*, since it seems ethically legitimate that each agent receives an income in relation to what he has contributed to produce. In other words, the distribution of income is governed by a 'natural law' which attributes to every agent the amount of wealth he has contributed to produce. The notion of exploitation loses all meaning in this context.[49]

As Alessandro Roncaglia put it, while income distribution in classical political economy was "a problem with autonomous characteristics, concerning the role of different social classes and their power relations," under marginalism it became "no more or less than a specific case of price theory in the context of the marginalist approach (where it concerned the prices of the 'factors of production')...."[50]

Screpanti and Zamagni argue that marginalism — its *wertfrei* pretensions notwithstanding — smuggled Panglossian legitimizing baggage in through the back door.

> Lastly, economic orthodoxy is *teleological* in that it makes use of concepts, like that of equilibrium, which are surreptitiously normative. It 'describes' an economic reality that

48 Dobb, *Political Economy and Capitalism*, pp. 178-180.
49 Screpanti and Zamagni, pp. 210-211.
50 Alessandro Roncaglia, *The Wealth of Ideas: A History of Economic Thought*. (Cambridge University Press, 2005), p. 280.

> tends towards the achievement of a state of social organization in which a harmonic and mutually beneficial form of human coexistence is possible. This is a pre-Darwinian view of evolution. According to Veblen, economics should instead be an evolutionary science and study social change in Darwinian terms. Real evolution is not teleologic, nor is it governed by any hidden end. It is powered by instincts and institutions that may serve progress and human improvement, but may also be *disserviceable* and even idiotic. It is furthermore cumulative and *path-dependent*. Ongoing processes are the result of their particular historical path and determine future paths which however remain open and unpredictable.[51]

Marginalist theory dispenses with issues of power, of institutional and class structure, replacing it with a neutral process by which income is distributed among economic actors in accordance with their "marginal productivity."

As Thorstein Veblen argues, in marginalist economics institutional considerations "are not subject to inquiry but are taken for granted as pre-existing in a finished, typical form and as making up a normal and definitive economic situation, under which and in terms of which human intercourse is necessarily carried on."

> The cultural elements so tacitly postulated as immutable conditions precedent to economic life are ownership and free contract, together with such other features of the scheme of natural rights as are implied in the exercise of these. These cultural products are, for the purposes of the theory, conceived to be given a priori in unmitigated force. They are part of the nature of things; so that there is no need of accounting for them or inquiring into them, as to how they have come to be such as they are, or how and why they have changed and are changing, or what effect all this may have on the relations of men who live by or under this cultural situation.[52]
>
> ...Certain institutional phenomena, it is true, are comprised among the premises of the hedonists, as has been noted above; but they are included as postulates a priori. So the institution of ownership is taken into the inquiry not as a factor of growth or an element subject to change, but as one of the primordial and immutable facts of the order of nature, underlying the hedonistic calculus. Property, ownership, is presumed as the basis of hedonistic discrimination and it is conceived to be given in its finished (nineteenth-century) scope and force. There is no thought either of a conceivable growth of this definitive nineteenth-century institution out of a cruder past or of any conceivable cumulative change in the scope and force of ownership in the present or future.[53]

Concerning the artificiality of the neoclassical model of income distribution among "factors of production," Jonathan Nitzan observes:

51 Screpanti and Zamagni, pp. 302-303.
52 Thorstein Veblen, "The Limitations of Marginal Utility," *Journal of Political Economy* 17:9 (November 1909), pp. 623-624.
53 *Ibid.*, p. 630.

> Each agent comes to the market with his or her initial endowments. For example, some will come with their labor, others will come with their raw material, and still others will come with their capital. Neoclassical political economy is rather ahistorical when it comes to these initial endowments. It tells us nothing about where these endowments come from, and why it is that some agents have plenty of them while others have very little.[54]

But the one caveat common to all the categories of neoclassical and marginalist analysis is that the general laws governing transactions posited by these theories take place within the interstices of preexisting institutional frameworks — the distribution of property, the rules governing its transfer and alienability, the definition of which things are and are not amenable to ownership, the nature of the rules governing them, rules of contract, distribution of bargaining power, etc. — which are prior to such transactions, and which fundamentally condition their character and outcome.

The distribution of income between individual economic actors and firms and between the various "factors of production," and the market-clearing prices established by market transactions, will vary wildly depending on how these prior institutional frameworks are defined — as will the ongoing economic behavior conditioned by the distribution of income. Market exchanges take place within the interstices of a set of power distributions and institutional forms which itself is not the product of market relations, but determines which out of a multitude of alternative possible markets actually exists.

Further, no particular definition of property rules can be logically deduced from any prior set of libertarian axioms such as self-ownership and non-aggression.

According to Walton Hamilton, the questions of "why all of us are as well off as we are" and "why some of us are better off than others"

> cannot properly be answered in formulas explaining the processes through which prices emerge in a market. Its quest must go beyond sale and purchase to the peculiarities of the economic system which allow these things to take place upon particular terms and not upon others. It cannot stop short of a study of the conventions, customs, habits of thinking, and modes of doing which make up the scheme of arrangements which we call "the economic order." It must set forth in their relations one to another the institutions which together comprise the organization of modern industrial society.[55]
>
> ...Value theory deals with its phenomena as if they were physically complete, independent, unchangeable substances....
>
> But the subject matter of economic theory cannot be handled in any such way. Competition, property, the price structure, the wage system, and like institutions refuse to

54 Jonathan Nitzan, "Neoclassical Political Economy: Skating on Thin Ice," YouTube, Jul 28, 2020 <https://www.youtube.com/watch?v=LsUS3ynhAKY&feature=youtu.be>.

55 Walton H. Hamilton, "The Institutional Approach to Economic Theory," *The American Economic Review* 9:1, Supplement, Papers and Proceedings of the Thirty-First Annual Meeting of the American Economic Association (Mar., 1919), p. 311.

> retain a definite content. Not only are things happening to them, but changes are going on within them. A law, a court decision, a declaration of war, a change in popular habits of thought, and the content of property rights is affected. An increased demand for labor, a refusal of the nation to allow strikes, an enforced recognition of unionism, an establishment of wages upon living costs, and the wage system becomes different. Both by a change in its relation to other things and by subtle changes going on within, each of these institutions is in process of development. And, if this is true of particular institutions, it is likewise true of the complex of institutions which together make up the economic order. We need constantly to remember that in studying the organization of economic activity in general as well as in particular, we are dealing with a unified whole which is in process of development.[56]

Karl Polanyi describes the market economy as "an economy directed by market prices and nothing but market prices," and "a system capable of organizing the whole of economic life without outside help or interference...."[57]

But such a thing is impossible by definition, because markets only operate within the interstices of a system characterized by a certain distribution of property and set of property rules (i.e. the rules governing initial acquisition, transfer, alienation, and abandonment of land, residual claimancy and governance rights in the firm, property in intangibles, etc.) which, rather than resulting from the market, are logically prior to it.

In any case, as Polanyi observed, such a thing — i.e., an economy even governed primarily by market prices given a preexisting state of affairs regarding property — had never before existed in history:[58] "The outstanding discovery of recent historical and anthropological research is that man's economy, as a rule, is submerged in his social relationships."[59] Market exchange had always existed on the margins of economies governed primarily by other principles.

The very concept of a "market economy," in which distribution takes place through the neutral mechanism of "marginal productivity," and force and politics never enter into the picture, is utter nonsense. There is *no such thing* as "*the* market economy," because the market simply establishes market-clearing prices *given* the previous distribution of property and the set of rules establishing and transferring ownership. And there are any number of possible markets, with an equally great number of different outcomes and income distributions, depending on which of the property distributions and rules for acquiring and transferring property — none of which is the outcome of market processes — one starts from. Capitalism's property rules were in fact established by the state, and their establishment involved the violent suppression of previous property rules and the violent imposition of new ones in their place.

So a society in which economic activity is dominated by the cash nexus does not arise naturally from voluntary exchange, but requires systematic suppression by the state of most forms of non-

56 *Ibid.*, pp. 314-315.
57 Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon Press, 2001 [1944]), p. 45.
58 *Ibid.*, pp. 45-46.
59 *Ibid.*, p. 48 *et seq*.

cash nexus production and distribution, and most forms of property — e.g. open field agriculture and common pasture — that do not facilitate cash nexus exchange. Indeed, it requires state action to reshape the entire society around market exchange, so that not only are the products of human labor saleable commodities, but as Polanyi notes, labor — along with land and money — is itself transformed into a fictitious commodity.[60]

> There was nothing natural about laissez-faire; free markets could never have come into being merely by allowing things to take their course.[61]
>
> ...The opposite of interventionism is laissez-faire, and we have just seen that economic liberalism cannot be identified with laissez-faire (although in common parlance there is no harm in using them interchangeably). Strictly, economic liberalism is the organizing principle of a society in which industry is based on the institution of a self-regulating market. True, once such a system is approximately achieved, less intervention of one type is needed. However, this is far from saying that market system and intervention are mutually exclusive terms. For as long as that system is not established, economic liberals must and will unhesitatingly call for the intervention of the state in order to establish it, and once established, in order to maintain it. The economic liberal can, therefore, without any inconsistency call upon the state to use the force of law; he can even appeal to the violent forces of civil war to set up the preconditions of a self-regulating market.[62]
>
> To separate labor from other activities of life and to subject it to the laws of the market was to annihilate all organic forms of existence and to replace them by a different type of organization, an atomistic and individualistic one.
>
> Such a scheme of destruction was best served by the application of the principle of freedom of contract. In practice this meant that the noncontractual organizations of kinship, neighborhood, profession, and creed were to be liquidated since they claimed the allegiance of the individual and thus restrained his freedom. To represent this principle as one of noninterference, as economic liberals were wont to do, was merely the expression of an ingrained prejudice in favor of a definite kind of interference, namely, such as would destroy noncontractual relations between individuals and prevent their spontaneous reformation.
>
> This effect of the establishment of a labor market is conspicuously apparent in colonial regions today. The natives are to be forced to make a living by selling their labor. To this end their traditional institutions must be destroyed, and prevented from reforming, since, as a rule, the individual in primitive society is not threatened by starvation unless the community as a whole is in a like predicament.... Thus the colonists may decide to cut the breadfruit trees down in order to create an artificial food scarcity or may impose a hut tax on the native to force him to barter away his labor. In either case the effect is similar to that of Tudor enclosures with their wake of vagrant hordes.[63]

60 *Ibid.*, pp. 75-76.
61 *Ibid.*, p. 145.
62 *Ibid.*, pp. 155-156.
63 *Ibid.*, pp. 171-172.

In his Introduction to *The Great Transformation*, Fred Block notes:

> This is part of what Polanyi means by his claim that "laissez-faire was planned"; it requires statecraft and repression to impose the logic of the market and its attendant risks on ordinary people.[64]

State policy-makers, under the pretense of allowing a completely natural market to function, are in fact engaged in the ongoing shaping of a system of power created by the state.

Aside from its violent origins in state power, the market economy has never actually become disembedded from society because such a thing is impossible. Even at the height of neoliberalism, under policy regimes purportedly aimed at governance entirely by market prices, the hidden hand of the state remained to subsidize artificially cheap resource inputs and otherwise socialize costs and risks, restrict competition to levels compatible with stable oligopoly markets, enforce artificial property rights like intellectual property and monopoly rights over the provision of liquidity and credit, impose labor discipline, and stimulate aggregate demand and soak up surplus spending by such expedients as the military-industrial complex.

So, far from market exchange and free contract being a neutral set of rules that immaculately allocates income to economic actors and "factors of production" according to their productivity, their productivity is itself defined in terms of a preexisting power distribution, so that "marginal productivity" is a tautological concept by which income is allocated to economic actors according to their respective power.

In light of all this, it's time to reexamine the widely reputed "victory" of Menger et al in the *Methodenstreit*, and in particular to reevaluate the allegedly neutral and universally valid pure theory of marginalist economics in the light of its flaws as revealed in the light of history and of subsequent critiques by Institutionalist and other heterodox economists. It's beyond my competence to suggest how the mechanics of marginalist pure theory might be integrated with historical and institutional analysis. But I will at least attempt to present the issues that existing marginalist economics fails, but needs, to address. In the various sections below I seek, if not to restore, at least to point out the lost institutional and power aspects concealed behind the "neutrality" of marginalist economics.

Specific Cases: Free Contract. Along with private property, freedom of contract is the foundation of the modern order celebrated by classical liberals. According to liberal legal historians like Henry Sumner Maine, the progression from a society based on status to one based on contract was a triumph of human freedom. But behind the formal equality presupposed in legal and economic theory, is concealed the reality of a society that continues to be based very much on status. As with other components of capitalist ideology, freedom of contract hides unequal power relations behind a veil of legal equality.

Neither the ideological principle of "freedom of contract" nor the legal enforcement of contractual agreements took cognizance regarding any power differentials between the

64 Fred Block, "Introduction" to *Ibid.*, xxvii.

respective parties to a contract. In both liberal ideology and legal theory, the parties are abstract individuals stripped of all personal characteristics, including station in life.

But this is nonsense. Adam Smith himself, not realizing the apologetic role in which he would one day be cast, wrote regarding labor negotiations:

> It is not... difficult to foresee which of the two parties must, upon all ordinary occasions, have the advantage in the dispute, and force the other into a compliance with their terms.... A landlord, a farmer, a master manufacturer, a merchant, though they did not employ a single workman, could generally live a year or two upon the stocks which they have already acquired. Many workmen could not subsist a week, few could subsist a month, and scarce any a year without employment. In the long run the workman may be as necessary to his master as his master is to him; but the necessity is not so immediate.

In other words, John Médaille comments, "negotiations tend to be about power, not productivity. This is true of contract negotiations in general, which always tend to give the stronger party the better deal."[65]

Veblen, throughout several of his books, uses the term "Natural Liberty" in reference to the institutional foundations of the official liberal capitalist ideology — particularly "private property" and "free contract" — while deconstructing it to make clear that not only are these institutional foundations not in fact "natural" or spontaneously arising, but conceal very real unequal power relations. He writes:

> Under the current *de facto* standardization of economic life enforced by the machine industry, it may frequently happen that an individual or a group, *e.g.*, of workmen, has not a *de facto* power of free contract. A given workman's livelihood can perhaps, practically, be found only on acceptance of one specific contract offered, perhaps not at all. But the coercion which in this way bears upon his choice through the standardization of industrial procedure is neither assault and battery nor breach of contract, and it is, therefore, not repugnant to the principles of natural liberty. Through controlling the processes of industry in which alone, practically, given workmen can find their livelihood, the owners of these processes may bring pecuniary pressure to bear upon the choice of the workmen; but since the rights of property which enforce such pressure are not repugnant to the principles of natural liberty, neither is such pecuniary pressure repugnant to the law, the case is therefore outside the scope of the law....
>
> The "natural," conventional freedom of contract is sacred and inalienable. *De facto* freedom of choice is a matter about which the law and the courts are not competent to inquire.[66]

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65 John C. Médaille, *Toward a Truly Free Market: A Distributist Perspective on the Role of Government, Taxes, Health Care, Deficits, and More* (Wilmington, Delaware: ISI Books, 2010), p. 129.
66 Thorstein Veblen, *The Theory of Business Enterprise*. With prefatory note by Joseph Dorfman and review by James Hayden Tufts (Clifton: Augustus M. Kelley, 1975 [1904]), pp. 277-278.

John R. Commons, likewise, noted the unreality of legal assumptions that economic actors of vastly different degrees of wealth and power were equally free agents.

> Is the will of an individual equal to the collective will of a corporation? A majority of the Supreme Court of the United States holds that it is, and overruled the Legislature and the Supreme Court of Kansas which held that it was not. The Kansas Legislature attempted to protect the will of the individual against the will of the corporation. The higher federal court said that the attempt was not due process of law because the *rights* of the two were exactly equal. The workingman had the right to choose between working for the corporation and not working for it. The corporation had the equal right to choose between employing the man and not employing him. The two *rights* on the two sides of the transaction were exactly equal. There was "equality of right," because each had the equal right to choose between acting and not-acting, between an "act" and an "omission."[67]

But this was nonsense, Commons said. In the real world, the corporation was vastly better situated to bargain with the individual worker than *vice versa*, and hence was able to unilaterally impose the terms of a contract:

> If the corporation has 10,000 employees it loses only one ten thousandth part of its working force if it chooses to not-employ the man, and cannot find an alternative man. But the man loses 100 per cent of his job if he chooses to not-work and cannot find an alternative employer. From the standpoint of an abstract concept of the will as a mere faculty of acting or not-acting, the two rights may be equal, just because nothing is equal to nothing. But, from the quantitative concept of the will as a choosing between actual alternatives in a world of limited opportunities, the right of the one is infinitely greater — or perhaps 10,000 times greater — than the right of the other....
>
> The question... is a question of relative degrees of economic or physical power in the process of choosing between alternative opportunities. This is a question of valuation and the proper proportioning of relative degrees of power of persons over persons.[68]

In the real world, freedom of the will is measured not by the formal right to do or not do a thing, but by the range of choices which are practically available.

> For the will is not an empty choosing between doing and not doing, but between different degrees of power in doing one thing instead of another. The will cannot choose nothing — it must choose something in this world of scarcity — and it chooses the next best alternative. If this alternative is a good one, then the will is free, and can be induced only by persuasion. If the alternative is a poor one, or if there is no alternative, then the will is coerced. The will chooses between opportunities, and opportunities are held and withheld by other wills which also are choosing between opportunities, and these opportunities are limited by principles of scarcity.[69]

67 John R. Commons, *Legal Foundations of Capitalism* (New York: MacMillan, 1924), p. 71.
68 *Ibid.*, pp. 72-73.
69 *Ibid.*, pp. 303-304.

> It is this economic coercion upon which is built industrial government, for its extreme penalty and inducement to obedience is that fear of poverty which varies greatly in its many aspects from fear of bankruptcy to fear of unemployment. And consequently, what may be distinguished as the common law of labor springing from the customs of wage earners, as distinguished from that historic common law springing from the customs of merchants and manufacturers, consists in those practices by which laborers endeavor to achieve their ideals through protection against the economic power of employers.
>
> These ideals and customs are quite peculiar and differ in important respects from those of business. Primarily they spring from that insecurity of jobs and positions which has a double aspect, namely, the limited supply of jobs and the control of that supply by capitalists. Out of this conviction that there are not enough jobs to go around, and the knowledge that the jobs themselves are owned by capitalists instead of laborers, arise many peculiar ideas and corresponding customs. One is the idea that the individual who gets more work or works faster than the others, is taking the bread out of their mouths. This goes along with the idea of stretching out one's work to make it last, or of sharing the work with others, and this leads to that severe reprobation and condemnation of those who violate the custom and refuse to be bound by these notions of solidarity in a field of limited opportunities.[70]

A theoretical freedom of contract, in a world where the parties are vastly unequal in real power and the terms of the contract are written by one party, is no freedom at all. And as Roderick Long explains, it is just such contracts that the vast majority of us find ourselves unwilling parties to:

> Suppose you forget to pay your power bill (or your phone bill, or your cable tv bill, or your internet access bill, or your credit card bill, or whatever). What happens? Your provider disconnects you, and you'll probably have to pay an extra fee to get service reestablished. You also get a frowny face on your credit report.
>
> On the other hand, suppose that, for whatever reason (internet glitches, downed power lines after a storm, or who knows), you suffer a temporary interruption of service from your provider. Do they offer to reimburse you? Hell no. And there's no easy way for you to put a frowny face on *their* credit report.
>
> Now, if you rent your home, take a look at your lease. Did you write it? Of course not. Did you and your landlord write it together? Again, of course not. It was written by your landlord (or by your landlord's lawyer), and is filled with far more stipulations of your obligations to her than of her obligations to you. It may even contain such ominously sweeping language as "lessee agrees to abide by all such additional instructions and regulations as the lessor may from time to time provide" (which, if taken literally, would be not far shy of a slavery contract). If you're late in paying your rent, can the landlord assess a punitive fee? You betcha. By contrast, if she's late in fixing the toilet, can you withhold a portion of the rent? Just try it.

70 *Ibid.*, pp. 304-305.

> Now think about your relationship with your employer. In theory, you and she are free and equal individuals entering into a contract for mutual benefit. In practice, she most likely orders the hours and minutes of your day in exacting detail. As with the landlord case, the contract is provided by her and is designed to benefit her. She also undertakes to interpret it; and you will find yourself subjected to loads of regulations and directives that you never consented to. And if you try inventing new obligations for her as she does for you, I predict you will be, shall we say, disappointed.
>
> These aren't merely cases of some people having more stuff than you do. They're cases in which some people are systematically empowered to dictate the terms on which other people live, work, and trade.[71]

In the real world, "freedom of contract" — much like "private property" — is an actual freedom for a fairly small minority of the population. For the rest of us, their freedom exists as a constraint on ourselves.

Specific Cases: Rent Extraction as Marginal Productivity. As already noted, marginal productivity theory treats the existing distribution of ownership rights over the "factors of production" as a given, and then proceeds to show how the product is distributed among them according to their "contribution" (i.e. what they contribute to the price of a finished good) — e.g. John Bates Clark's contention that, as Maurice Dobb paraphrased it, "each factor… received the equivalent of what it 'contributed' to production…."[72]

The concept of "marginal productivity," along with the rest of the apparatus of marginalist economics, functions primarily to conceal power relationships. As Chris Dillow observes:

> Talk of the "market" is therefore what Georg Lukacs called reification — the process whereby "a relation between people takes on the character of a thing and thus acquires a 'phantom objectivity.'" It obfuscates the fact that wages are set by the power of one person over another. Such obfuscation serves a profoundly ideological function; it effaces the fact that the capitalist economy is based upon power relationships….
>
> Talk of "the market" is often question-begging; it begs the question of how, exactly, prices and wages are determined in the market. The answer usually involves some element of power.[73]

In classical — Ricardian — political economy, "income-distribution is treated as being the result of social institutions," according to Dobb, whereas for marginalists "it is determined by the conditions of exchange. In the one case it is determined from outside and in the other case from inside the process of market forces."[74]

71 Roderick Long, "How Inequality Shapes Our Lives," *Austro-Athenian Empire*, September 17, 2010 <https://aaeblog.com/2010/09/17/how-inequality-shapes-our-lives/>.
72 Dobb, *Theories of Value and Distribution Since Adam Smith*, p.176.
73 Chris Dillow, "The ideology of 'the market'," *Stumbling and Mumbling* Blog, July 27, 2017 <https://stumblingandmumbling.typepad.com/stumbling_and_mumbling/2017/07/the-ideology-of-the-market.html>.
74 Dobb, *Theories of Value and Distribution Since Adam Smith*, p. 34.

Marginalism sweeps the question of justice in distribution under the rug by subsuming it within price-theory — as opposed to classical, and particularly Ricardian, political economy, which treated distribution as prior to exchange (in the sense that "price-relations or exchange-values could only be arrived at *after* the principle affecting distribution of the total product had been postulated.")[75]

> The change [in orientation from Ricardianism to marginalism] was associated... with the drawing of different boundary-lines to the "economic system", as an "isolated system"; so that questions of property-ownership or class relations and conflicts were regarded as falling outside the economist's domain, not directly affecting, in major respects at least, the phenomena and relations with which economic analysis was properly concerned, and belonging instead to the province of the economic historian or the sociologist.[76]
>
> ...[T]he reduction of distribution to the pricing of productive services or factors had the result of excluding the social circumstances of the individuals (or social groups) associated with the supply of these "services" — even to the extent of dropping from sight the very existence of these individuals.... The extreme case was where *given* factor-supplies were postulated, and distribution consisted simply of the pricing of *n* factor inputs.... Hence the illusion of distribution being integrated completely within the exchange-process was at its greatest.[77]

But in practice, the marginalists themselves will frequently slip up and admit that their neutral, immaculate distribution according to marginal product is secondary to institutional considerations. For example: Seemingly unaware of the full implications of his own argument, Murray Rothbard noted that when unoccupied and undeveloped lands were engrossed by absentee owners with help from the state, and held out of use, the result is artificial scarcity of land relative to labor, which "raises the marginal value product and the rents of remaining land and lowers the marginal value product of labor, thereby lowering wage rates."[78]

But — again — even so he fails to see the full implications of this admission. He frames it merely as a distorting effect on the "real" marginal productivity of labor and land that would prevail under some "genuine" property rights system. What he misses is the general principle that marginal productivity is secondary, coming only *after* the prior definition of property and institutional structures, and that there is a wide variety of alternative possible property rules, under each of which the "marginal productivity" outcomes would be different. And it's not a matter of his one, true non-Proviso Lockean system versus all the other statist deviations; his Lockean view of property is itself ahistorical, with the actual predominance of fee-simple individual commodity property being a relatively recent creation of state violence.

Any particular set of property rules, or allocation of property, will result in greater or lesser *practical* scarcity for the different factor inputs, compared to alternative rulesets; as a result the

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75 *Ibid.*, pp. 33-34.
76 *Ibid.*, pp.172-173.
77 *Ibid.*, p.175.
78 Murray N. Rothbard, *Power and Market: Government and the Economy*. Fourth edition (Auburn, AL: Ludwig von Mises Institute, [1970] 2006), p. 165.

"marginal productivity" of those inputs relative to each other will vary from one system to the next despite the same quantity of actual physical stocks. The choice of *any* particular set of property rules, or *any* particular allocation of property, will change the comparative marginal returns on all forms of property relative to what would prevail under alternative rulesets and distributions. So stripped of the fake historical assumptions with which he implicitly qualifies it, Rothbard's admission is actually a simple admission that marginal productivity is defined by power.[79]

The concept of "marginal productivity," in other words, is a tautology. As Veblen observes, anything that collects an income — including for not using artificial property rights to obstruct production — is a "factor of production":

> It has been usual, and indeed it still is not unusual, to speak of three coordinate "factors of production": land, labor, and capital. The reason for this threefold scheme of factors in production is that there have been three recognized sources of income: rent, wages, and profits; and it has been assumed that whatever yields an income is a productive factor.[80]

Veblen's general term for the ability to extract rents from artificial property rights and artificial scarcity was "capitalized disserviceability":

> So also as regards the discretionary abuse of the community's industrial efficiency vested in the owner of the material equipment. Disserviceability may be capitalized as readily as serviceability....[81]

Essentially, the ability to obstruct production, or to withhold resources from production, is defined as "productivity." Maurice Dobb uses the hypothetical example of toll-gates (purely to collect fees for not obstructing passage, not for actually funding upkeep on roads):

> Suppose that toll-gates were a general institution, rooted in custom or ancient legal right. Could it reasonably be denied that there would be an important sense in which the income of the toll-owning class represented "an appropriation of goods produced by others" and not payment for an "activity directed to the production or transformation of economic goods?" Yet toll-charges would be fixed in competition with alternative roadways, and hence would, presumably, represent prices fixed "in an open market...." Would not the opening and shutting of toll-gates become an essential factor of production, according to most current definitions of a factor of production, with as much reason at any rate as many of the functions of the capitalist entrepreneur are so classed

79 This has similar implications for the vulgar Marxist conception of "efficiency" in the "forces of production," as a neutral and immaculate value maximized by capitalism over the course of its "scarce 100 years." The very definition of efficiency depends on the measure of returns which themselves depend on the structure of ownership rights. Capitalism, arguably, optimized for "efficiency" in terms of surplus extraction through the choice of production technologies which maximized labor discipline and legibility, even though those technologies were sub-optimal in terms of the ratio of material output to input compared to other technological paths described by writers like Kropotkin, Mumford, and Borsodi.

80 Veblen, *The Engineers and the Price System* (New York: B.W. Huebsch, Inc., 1921), p. 27.

81 Veblen, "On the Nature of Capital: Investment, Intangible Assets, and the Pecuniary Magnate," *Quarterly Journal of Economics* volume 23, issue 1 (November 1908), p. 108.

> to-day? This factor, like others, could then be said to have a "marginal productivity" and its price be regarded as the measure and equivalent of the service it rendered. At any rate, where is a logical line to be drawn between toll-gates and property-rights over scarce resources in general?[82]

Or as Marx put it in volume 3 of *Capital*, the landlord's ability to collect rent for not obstructing access to land is reified as the land "factor of production"; the capitalist's preemption of the function of mobilizing credit, and extraction of a monopoly price for that "service," is reified as "capital"; and so on.

> ...[L]and becomes personified in the landlord and... gets on its hind legs to demand, as an independent force, its share of the product created with its help. Thus, not the land receives its due portion of the product for the restoration and improvement of its productivity, but instead the landlord takes a share of this product to chaffer away or squander.[83]

The "trinitarian formula" of wages, profit, and rent is "an enchanted, perverted, topsy-turvy world, in which Monsieur le Capital and Madame la Terre do their ghost-walking as social characters and at the same time directly as mere things."[84] Theories of the "productivity" of land and capital are based on the social convention of imputing their productive qualities to an owner who controls access to them.

John R. Commons made a distinction similar to that of Veblen between capitalized serviceability and capitalized disserviceability: namely, between *producing power* and *bargaining power*, and between the ability to *hold* for self and *withhold* from others. He remarked on the shift in American courts' understanding of property (in regard to constitutional prohibitions on takings) from the possession and enjoyment of a physical object to the intangible exchange-value of any asset, whether a physical entity or incorporeal property. It involved a shift from "'uses' in the sense of producing an increase in the supply of goods,"

> to its exact opposite meaning in the business sense of an increase in the power of owners to command goods from other persons in exchange. The one is *producing power* which *increases* the supply of goods in order to increase the quantity of use-values; the other is *bargaining power* which *restricts* the supply of goods in proportion to demand, in order to increase or maintain their exchange-value. Bargaining power is the willful *restriction* of supply in proportion to demand in order to maintain or enlarge the value of business assets; but producing power is the willing *increase* of supply in order to enlarge the wealth of nations.
>
> Hence the transition in the meaning of property from the use-value to the exchange-value of things, and therefore from the producing power that increases use-values to the

82 Dobb, *Political Economy and Capitalism*, p.66.
83 Karl Marx and Friedrich Engels, *Capital* vol, 3. Vol. 37 of Marx and Engels *Collected Works* (New York: International Publishers, 1998), p. 811.
84 *Ibid.*, p. 817.

> bargaining power that increases exchange-values, is more than a transition-it is a reversal.[85]
>
> ...But when markets expanded, when laborers were emancipated, when people began to live by bargain and sale, when population increased and all resources became private property, then the power to *withhold* from others emerged gradually from that of exclusive *holding* for self as an economic attribute of property.... Then the power of property *per se*, distinguished from the power residing in personal faculties or special grants of sovereignty, comes into prominence.... When to this is added the pressure of population and the increasing demand for limited supplies of mineral and metal resources, of water-powers, of lands situated at centers of population, then the mere holding of property becomes a power to withhold, far beyond that which either the laborer has over his labor or the investor has over his savings, and beyond anything known when this power was being perfected by the early common law or early business law. It becomes a power to extract things in exchange from other persons, in the absence of and wholly separate from individual human faculties — a power of property *per se*, silently operating but clearly seen and distinguishable from the manual, mental and managerial abilities of its owners.
>
> This power of property in itself, the power to withhold, seen in these extreme cases, is but an enlargement of that power which exists in all property as the source of value-in-exchange and which may be distinguished as *waiting-power*, the power to hold back until the opposite party consents to the bargain.... Waiting-power emerges out of waiting-service when both the natural opportunities are occupied and the individual services of hundreds and thousands of investors are brought together in the collective power of corporations holding access to market opportunities.[86]
>
> Thus land, labor, capital, and the entrepreneur, are but a classification of proprietary relations of giving and taking. Each is twofold. Ownership of land, labor, capital, and business faculties are the instrumentalities through which he gives the service of working, waiting and risking; and they are also the instruments through which he induces others to make compensation through refusing to work, wait, or risk. In the one aspect they are instruments of use-value or real value, through increase of service, in the other they are instruments of nominal value or price, through power to withhold use-values. In the first aspect they are instruments of "producing power," in the second aspect they are instruments of "bargaining power." In the one aspect they are instrumental to enlarging the commonwealth, in the other to getting a share of it.[87]

Closely related to "capitalized disserviceability" is Veblen's treatment of sabotage as a business practice. In the first chapter of *The Engineers and the Price System* he refers to the broad definition of sabotage — "the selective withdrawal of efficiency" — as used by workers in labor struggle, and then devotes the chapter to arguing that sabotage by this definition is equally

85 Commons, *Legal Foundations of Capitalism*, pp. 20-21.
86 *Ibid.*, pp. 53-54.
87 *Ibid.*, p. 369.

prevalent as a strategy by business to keep production down to the level that the market will bear.

And given that the role of the capitalist state is to administer the collective business interests of the country, it follows that "the nation's lawgivers and administrators will have some share in administering that necessary modicum of sabotage that must always go into the day's work of carrying on industry by business methods and for business purposes."[88]

> The great standing example of sabotage administered by the government is the protective tariff, of course. It protects certain special interests by obstructing competition from beyond the frontier.... The effect of the tariff is to keep the supply of goods down and thereby keep the price up, and so to bring reasonably satisfactory dividends to those special interests which deal in the protected articles of trade, at the cost of the underlying community. A protective tariff is a typical conspiracy in restraint of trade. It brings a relatively small, though absolutely large, run of free income to the special interests which benefit from it, at a relatively, and absolutely, large cost to the underlying community, and so it gives rise to a body of vested rights and intangible assets belonging to these special interests.[89]
>
> ...According to the Liberal principles of the eighteenth century any legally defensible receipt of income is a sure sign of productive work done. Seen in the light of this assumption, the visibly increasing productive capacity of the industrial system has enabled all men of a liberal and commercial mind not only to credit the businesslike captains of industry with having created this productive capacity, but also to overlook all that the same captains of industry have been doing in the ordinary course of business to hold productive industry in check. And it happens that all this times things have been moving in such a direction and now have gone so far that it is today quite an open question whether the businesslike management of the captains is not more occupied with checking industry than with increasing its productive capacity.[90]

Since productive capacity outstripped the purchasing power of the market in the mid- to late 19th century, and that same productive capacity has fallen under the control of centralized corporate finance, economic governance has been characterized by the restriction of output to what the market will bear — i.e., "what will yield the largest net earnings."[91]

Although Veblen does not mention it — he focuses only on the aspect of things that involves the captains of finance and industry constraining production in the face of the community's interest in maximizing output — such sabotage also involves hampering productive efficiency and engaging in subsidized waste production in the interest of utilizing idle capacity and minimizing unit costs (e.g., through planned obsolescence, state-facilitated suburbanization and sprawl, armaments expenditure, etc.).

88 Veblen, *The Engineers and the Price System*, p. 19.
89 *Ibid.*, p. 20.
90 *Ibid.*, p. 31.
91 *Ibid.*, pp. 38-39.

Between them, these conflicting imperatives amount to a general rule of maximizing utilization of capacity when subsidized waste and artificial demand makes it possible, and resorting to administered pricing when it does not.

The classic example of capitalized disserviceability is absentee ownership of land or natural resources. In fact land, with its laws of differential rent as elaborated by Ricardo, was the paradigmatic case of economic rents. Veblen writes:

> Natural resources are valuable to their owners not because the owners have produced these things nor because they have invested their "savings" in them, but because the community has use for them and is willing to pay something for their use.... Natural resources are acquired, owned, and valued, as a source of free income; income for which no equivalent in useful work is given....
>
> The absentee owner of natural resources is enabled to make them a source of free income, that is to say make them assets, by the power legally conferred on him to withhold them from use until his charge for their use is allowed him. What this charge will be is always question of what the traffic will bear; which is the same as what will yield him the largest net return.[92]

Likewise, immaterial property from which rents can be extracted in return for allowing production to proceed. According to Veblen, "[t]he substantial foundation of the industrial corporation is its immaterial assets."[93] This includes, in particular, all the immaterial assets under the heading of "good-will."

> In this capitalization of earning-capacity the nucleus of the capitalization is not the cost of the plant, but the concern's good-will, so called.... "Good-will" is a somewhat extensible term, and latterly it has a more comprehensive meaning than it once had. Its meaning has, in fact, been gradually extended to meet the requirements of modern business methods. Various items, of very diverse character, are to be included under the head of "good-will"; but the items included have this much in common that they are "immaterial wealth," "intangible assets"; which, it may parenthetically be remarked, signifies among other things that these assets are not serviceable to the community, but only to their owners. Good-will taken in its wider meaning comprises such things as established customary business relations, reputation for upright dealing, franchises and privileges, trade-marks, brands, patent rights, copyrights, exclusive use of special processes guarded by law or by secrecy, exclusive control of particular sources of materials. All these items give a differential advantage to their owners, but they are of no aggregate advantage to the community.[94]

92 Veblen, *Absentee Ownership and Business Enterprise in Recent Times: The Case of America* (New York: Augustus M. Kelley, 1964 [1923]), pp. 125-126.
93 Veblen, *The Theory of Business Enterprise*, p. 143.
94 *Ibid.*, pp. 138-140.

This mention of trademarks, patents, and trade secrets leads us to the central role of intellectual property — the enclosure of social knowledge — as a source of capitalist profit in the contemporary economy.

Intellectual property is a perfect illustration of the dependence of marginal productivity on the prior definition of property rights. Veblen observed that the "industrial arts" — essentially the same thing Marx in the *Grundrisse* referred to as "social intellect," and Proudhon in *The Philosophy of Poverty* examined under the heading of the productivity of cooperative labor or collective force — is not classified among the factors of production. It is "a joint stock of knowledge derived from past experience, and is held and passed on as an indivisible possession of the community at large."[95] And elsewhere:

> Whenever a human community is met with..., it is found in possession of something in the way of a body of technological knowledge.... It may be called the immaterial equipment, or, by a license of speech, the intangible assets of the community.... Without access to such a common stock of immaterial equipment no individual and no fraction of the community can make a living, much less make an advance. Such a stock of knowledge... is held as a common stock, pervasively, by the group as a body, in its corporate capacity...; and it is transmitted and augmented in and by the group....
>
> The requisite knowledge and proficiency of ways and means is a product, perhaps a by-product, of the life of the community at large; and it can also be maintained and retained only by the community at large.[96]

Even though it is responsible for the overwhelming bulk of increases in productivity in terms of actual use value and is "the indispensable foundation of all productive industry," Veblen writes, the state of the industrial arts nevertheless "affords no legal claim to a share in the community's yearly production of goods." The reason for this is that, "except for certain minute fragments covered by patent rights or trade secrets, this joint stock is no man's individual property."[97]

With this last assertion I would take strong issue. Patents and other forms of intellectual property, among all the other forms of immaterial assets, far from being a "minute fragment," are by far the greatest single source of profit extraction by corporate capital.

They have played an enormous role, historically, in the cartelization of industry. For example the Bell patent organization was the basis for AT&T; Westinghouse and GE secured joint control of the consumer appliance industries through pooling of patents; and RCA was originally a patent pool by the five largest radio manufacturing companies in the U.S. And they have played an even greater role more recently in corporate globalization.[98]

95 Veblen, *The Engineers and the Price System*, p. 28.
96 Veblen, "On the Nature of Capital," *Quarterly Journal of Economics* volume 22, issue 4 (August 1908), pp. 518-519.
97 Veblen, *The Engineers and the Price System*, p. 28.
98 The significance of intellectual property, as the legal basis for enclosure of social knowledge, is still greater today. Veblen argued in the 1920s — despite the role of patents in industrial cartelization — that it was primarily absentee property rights over the physical means of production that gave capitalists indirect control over social knowledge and technology; their right to deny use of the physical means of production amounted to a veto over the

Both the general stock of scientific-technical knowledge and the technical skills of industrial workers and engineers, Veblen (again) points out, are the collective products of society:

> The technology — the state of the industrial-arts — which takes effect in this mechanical industry is in an eminent sense a joint stock of knowledge and experience held in common by the civilized peoples. It requires the use of trained and instructed workmen — born, bred, trained, and instructed at the cost of the people at large. So also it requires, with a continually more exacting insistence, a corps of highly trained and specially gifted experts, of diverse and various kinds. These, too, are born, bred, and trained at the cost of the community at large, and they draw their requisite special knowledge from the community's joint stock of accumulated experience.[99]

But through patents and legally enforced trade secrets, capitalists are able to enclose this intellectual commons as a source of purely private rents for themselves.

If absentee ownership of engrossed and enclosed resources, and ownership of immaterial property in the right to combine ideas or natural elements in a particular pattern, are both significant sources of rent extraction under capitalism, it is equally true that property in land and property in ideas mutually interact to give each other value. Not only does the labor and social knowledge of the community give value to natural resources which otherwise would be worthless, but the capitalists also own the social knowledge itself.

> This state of the industrial arts... is... of the nature of a joint stock of technical knowledge and proficiency, held, worked, augmented, and carried forward in common by the population at large.... It is a joint stock of technical knowledge and workmanlike habits, without the use of which the existing material wealth of the civilised nations would not be wealth. Also, in the same connection it should be recalled that the American plan is and has been, consistently from the beginning, to convert all these unexampled natural resources to absentee ownership... — all the while that it is the community's workmanship that gives them whatever value they have.
>
> ...This American plan or policy is very simply a settled practice of converting all public wealth to private gain on a plan of legalised seizure.[100]

Although the ownership of ideas itself, through intellectual property rights, has played a central role both in the history of industrial concentration and as a source of capitalist profit, Veblen puts primary emphasis on the ownership of the physical means of production as an indirect source of de facto ownership — because of the role of expensive capital assets as a limiting factor in putting skill and technological knowledge to use — over social knowledge.

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use of social knowledge (See Veblen, *Absentee Ownership and Business Enterprise in Recent Times*, pp. 65-66. Today just the opposite is true: as the cheapening and reduced scale of physical means of production puts ownership of productive capacity back within the reach of small, worker-owned shops, it is corporate capital's ownership of patents and trademarks which gives it a veto over the right to engage in physical production.

99 Veblen, *The Engineers and the Price System*, pp. 68-69.

100 Veblen, *Absentee Ownership*, pp. 167-168.

> It is not until a late period in the life-history of material civilization that ownership of the industrial equipment... comes to be the dominant and typical method of engrossing the immaterial equipment.[101]

Veblen goes on to argue that this state of affairs came about because the scale of production required by new technology put ownership of the means of production beyond what individual workers could afford, and required absentee ownership.[102]

In short, "the ownership of industrial equipment as... an institution for cornering the community's intangible assets...."[103]

> It follows from what has been said that all tangible assets owe their productivity and their value to the immaterial industrial expedients which they embody or which their ownership enables their owner to engross. These immaterial industrial expedients are necessarily a product of the community....[104]

The way in which socially created technological knowledge is the source of physical capital's value is directly analogous to the way in which — as the Georgists observed — the site value of land results from the community's productive activity.

> The argument of the single-tax advocates and other economists as to the "unearned increment" is sufficiently familiar, but its ulterior implications have not commonly been recognized. The unearned increment, it is held, is produced by the growth of the community in numbers and in the industrial arts. The contention seems to be sound, and is commonly accepted; but it has commonly been overlooked that the argument involves the ulterior conclusion that all land values and land productivity, including the "original and indestructible powers of the soil," are a function of the "state of the industrial arts." It is only within the given technological situation, the current scheme of ways and means, that any parcel of land has such productive powers as it has. It is, in other words, useful only because, and in so far, and in such manner, as men have learned to make use of it. This is what brings it into the category of "land," economically speaking. And the preferential position of the landlord as a claimant of the "net product" consists in his legal right to decide whether, how far, and on what terms men shall put this technological scheme into effect in those features of it which involve the use of his parcel of land.
>
> All this argument concerning the unearned increment may be carried over, with scarcely a change of phrase, to the case of "capital goods."[105]

101 Veblen, "On the Nature of Capital," pp. 526-527.
102 *Ibid.*, *passim*.
103 *Ibid.*, 527.
104 *Ibid.*, p. 539.
105 *Ibid.*, p. 530.

So in some cases the ownership of land and of human labor itself has enabled the propertied classes to appropriate the surplus produced by social knowledge and cooperative labor. In others, the ownership of industrial machinery has done so.

And more recently, with the cheapening of industrial machinery scaled to decentralized production and cooperative ownership, property rights in the social knowledge itself have served this purpose.

But in every case, the "marginal productivity" of the property owner's "contribution" has amounted to the tribute they have been able to collect in return for not obstructing productive use of a social or natural good.

> The ownership of the material equipment gives the owner not only the right of use over the community's immaterial equipment, but also the right of abuse and of neglect or inhibition. This power of inhibition may be made to afford an income, as well as the power to serve; and whatever will yield an income may be capitalized and become an item of wealth to its possessor. Under modern conditions of investment it happens not infrequently that it becomes pecuniarily expedient for the owner of the material equipment to curtail or retard the processes of industry, — " restraint of trade."...[106]

In addition, in the case of the productivity multiplier that comes from cooperative labor, the capitalist classes' monopoly over the function of mobilizing credit enables them to enclose that productivity as a source of rent. As I have argued elsewhere, the basic function of mobilizing credit or providing liquidity is one that can be organized horizontally through a cooperative credit system, with workers advancing their respective outputs to each other continually; it can be managed entirely as a system of flows, with no preexisting stocks of money capital required. It is the capitalist legal system which restricts the credit function to a class which is in possession of such stocks.[107]

At the most immediate level, this monopoly benefits the industrial capitalist at the expense of the workers from whose cooperative labor rent is extracted. Under the pretense of providing a "wage fund" through their own savings, capitalists in fact interpose themselves between groups of workers and collect a tribute on the lines of output they advance to one another. Thomas Hodgskin described it almost 200 years ago:

> Betwixt him who produces food and him who produces clothing, betwixt him who makes instruments and him who uses them, in steps the capitalist, who neither makes nor uses them, and appropriates to himself the produce of both. With as niggard a hand as possible he transfers to each a part of the produce of the other, keeping to himself the large share. Gradually and successively has he insinuated himself betwixt them, expanding in bulk as he has been nourished by their increasingly productive labours, and separating them so widely from each other that neither can see whence that supply is drawn which each receives through the capitalist. While he despoils both, so completely does he

106 Veblen, "On the Nature of Capital: Investment, Intangible Assets, and the Pecuniary Magnate," p. 106.
107 Kevin A. Carson, "Credit As an Enclosed Commons," Center for a Stateless Society, March 23, 2020 <https://c4ss.org/content/52718>.

> exclude one from the view of the other that both believe they are indebted him for subsistence. He is the middleman of all labourers; and when we compare what the skilled labour of England produces, with the produce of the untutored labour of the Irish peasantry, the middlemen of England cannot be considered as inferior in their exactions to the middlemen of Ireland. They have been more fortunate, however, and while the latter are stigmatised as oppressors, the former are honoured as benefactors. Not only do they appropriate the produce of the labourer; but they have succeeded in persuading him that they are his benefactors and employers. At least such are the doctrines of political economy; and capitalist may well be pleased with a science which both justifies their claims and holds them up to our admiration, as the great means of civilising and improving the world.[108]

But in the age of finance capitalism, it also enables the finance industry to extract its own share of profit from industrial capital. To quote Veblen again:

> In a manner analogous to the old-fashioned capitalist-employer's engrossing of the industrial community's technological efficiency does the modern pecuniary magnate engross the business community's capitalistic efficiency. This capitalistic efficiency lies in the capitalist-employer's ability — by force of the ownership of the material equipment — to induce the industrial community, through suitable bargaining, to turn over to the owner of the material equipment the excess of the product above the industrial community's livelihood.[109]

And the "pecuniary magnate," as opposed to the capitalist-employer, in their turn is able to convert their monopoly over the supply of liquidity — and hence their ability to withhold it — into the power to extract a surplus from industrial capitalists.[110]

In short, although marginalism frames the income of capital as a payment for capitalists' contributions to productivity, it was in fact a rent on the productivity of the community which the capitalists engrossed. One final quote from Veblen:

> It has commonly been assumed by economists, without much scrutiny, that the gains which accrue from invested wealth are derived from and (roughly) measured by the productivity of the industrial process in which the items of wealth so invested are employed, productivity being counted in some terms of material serviceability to the community, conduciveness to the livelihood, comfort, or consumptive needs of the community. In the course of the present inquiry it has appeared that the gainfulness of such invested wealth (tangible assets) is due to a more or less extensive engrossing of the community's industrial efficiency. The aggregate gains of the aggregate material capital accrue from the community's industrial activity, and bear some relation to the productive capacity of the industrial traffic so engrossed.[111]

108 Thomas Hodgskin, *Labour Defended Against the Claims of Capital* (1825). Hosted at Marxists Internet Archive <https://www.marxists.org/reference/subject/economics/hodgskin/labour-defended.htm>.
109 Veblen, "On the Nature of Capital: Investment, Intangible Assets, and the Pecuniary Magnate," p. 106.
110 *Ibid.*, p. 133.
111 *Ibid.*, pp. 105-106.

Specific Cases: Land Rent. The classical political economists — at least the British line going from Smith through Ricardo — recognized the unique nature of land as a factor of production. In this, as Fernando Gerstein and Fred Foldvary point out, they were just acknowledging

> what any normal person knows from their own experience, without any need of economic knowledge: that land, meaning all nature external to man, is indeed distinct. It has not been 'produced' by human action, but preexists mankind.
>
> Unlike a building or tool, the price of land is not dependent on a 'cost of production' – it has none. The value of a plot land does not depend on what the owner happened to pay for it. From the viewpoint of society or the economy, land does not have an economic cost. That is because, since land is here by nature and not produced by human action, nothing had to be given up in order to provide land. Unlike labour, there is no "opportunity cost to land," as no resources or benefits such as leisure are given up or sacrificed to have land. An individual buyer has a cost of buying land, since he could have obtained something else, but for the economy, this is just a transfer of title and money, with no sacrifice of other resources.
>
> The value of land is distinct from the value of the investments on the site; such improvements are capital goods, not part of the land itself. The market value of land depends exclusively on the expected future rents, whether explicit or implicit, that the owner can obtain. The price of land, generally speaking, is formed by its expected future rent capitalised at the current real interest rate.[112]

The classical political economists — hardly unique in that regard, of course — recognized the unearned and parasitic nature of land rent. But beyond that, David Ricardo developed the theory of differential rent in terms of fertility, and Henry George elaborated on it in regard to location. This insight was invaluable in its own right, and even more so insofar as the theory of differential rent in land became the basis for the theory of economic rents in general.

But to the extent that classical political economy provided useful insights as to the distribution of power and property, and the way incomes reflected that distribution, to that same precise extent was it in the interest of the dominant school of marginalist economics to obscure those insights. "Certainly most marginalists have tended to confound land and capital, thus contributing to blurring the distinct character of land as an economic factor…. [T]he artillery of the American neoclassical school of thought was based on merging land and capital goods…."[113]

For example, Mises writes that classical political economy "erred when it assigned to land a distinct place in its theoretical scheme. Land is, in the economic sense, a factor of production, and the laws determining the formation of the prices of land are the same that determine the formation of the prices of other factors of production."[114]

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112 Fernando Scornik Gerstein and Fred E. Foldvary. *The Marginalists and the Special Status of Land as a Factor of Production* (International Union for Land- Value Taxation & Free Trade, 2010) <https://www.cooperative-individualism.org/foldvary-fred_marginalists-and-the-special-status-of-land-2010.pdf>, pp. 2-3
113 *Ibid.*, p. 8.

As we have already seen with regard to the assertions of marginalist economics in general, this is true — as far as it goes. To borrow a phrase from Lionel Hutz, it's "the best kind of true — technically true." It's technically true that the price of land is determined by marginal utility, which in turn is the result of the quantities supplied and quantities demanded on the spot market at any given time. The problem is that land differs from capital in that the quantity in existence is fixed, as are the locations of the various parcels relative to one another. This means that land functions quite differently in practical terms, even if it can be explained in terms of the same formal mechanism. To quote Gerstein and Foldvary again:

> The rent of land is determined in the same way as the return to other factors only with respect to the economic process, the elements of supply and demand, but the essence is different because 'territorial capitals' are different. The effect on society and the implications for policy are profoundly different between land and the other factors. ... [L]and is immobile and fixed in its amount within some territorial boundary. As a consequence, rent is a monopoly price, in the classical sense of monopoly as an industry in which there is no entry to expand supply. Capital goods do not generally have such a monopoly, since a higher return attracts firms to increase the supply.[115]
>
> It is indeed true that the supply and demand mechanism establishing the price of land in a market is the same as that establishing the price of capital goods, but in the application there is a critical difference: the amount of capital goods may be increased indefinitely. This is not the case for spatial land, its supply being fixed. The impossibility of importing or expanding land exacerbates speculation that increases the price of land beyond that warranted by current use, raising the cost of access to land. Therefore, in a progressive society, as Leon Walras pointed out, an increase in population increases the demand for land. The outcome is that the marginal utility of land increases....[116]

So the marginalist theoretical apparatus achieves formal elegance and simplicity, once again, at the cost of obscuring real world patterns that are of practical significance. Although it is beyond the scope of this paper and would require an extended digression, Mason Gaffney has produced a quite plausible brief in support of the contention that the marginalists — and John Bates Clark in particular — were consciously motivated by a desire to obscure the nature of differential rent.[117]

Specific Cases: Time Preference. Eugen von Böhm-Bawerk's time preference theory is taken by marginalists — and by those of the Austrian school in particular — as a smashing rebuttal of Marx's and other socialist theories of exploitation. Although he devoted a great deal of space to arguing that his theory was unique and entirely different from them, it is in many ways a more sophisticated version of the "waiting" and "sacrifice" theories which the Longfield-Senior generation mobilized against Ricardo, and which in turn were essentially variations on older "labor fund" doctrines.

114 Ludwig von Mises, *Human Action: A Treatise on Economics*. Third revised edition (Chicago: Henry Regnery Company, [1949] 1966) p. 637.
115 Gerstein and Foldvary, p. 44.
116 *Ibid. p. 5.*
117 Mason Gaffney and Fred Harrison, *The Corruption of Economics* (Shepheard-Walwyn Ltd, 1994).

But on closer examination, it is not quite the devastating blow to exploitation theory it's reputed to be. Maurice Dobb argued that time preference was itself a dependent variable. The respective time-preference values of different groups depended on "the prior postulation of a certain income-distribution and hence a certain class structure." The individual's "preference for present against future..., will depend upon his income; with the circular result that the nature of the fundamental costs which affect... the rewards of the factors of production will be determined in turn by the distribution of income."[118]

Marginalist economics normally just takes such existing distributions of resources as a given, without inquiring into them.[119]

But Böhm-Bawerk himself admitted, at least implicitly, that the steepness of time preference varied inversely with wealth and economic security. He conceded that it was possible that the random fluctuations of the market would, from time, reduce the number of competing property owners, lenders, or employers relative to borrowers or employees. The combination of "monopolising of property" and "compulsion on the poor" would steepen the time preference of the latter, so that the rate of interest would momentarily increase. Even more telling, he continued: "...the very unequal conditions of wealth in our modern communities brings us unpleasantly near the danger of exploitation and of usurious rates of interest."[120]

This concession in principle did not prevent him, of course, from sailing right past that admission and writing everywhere else as if the existing distribution of property were just a natural state of affairs, undeserving of any further looking into. He wrote of the capitalists as simply being "merchants who have present goods to sell," "fortunate possessors of a stock of goods which they do not require for the personal needs of the moment. They exchange their stock, therefore, into future goods of some form or another...."[121] These fortunate individuals encounter others not so fortunate: "An enormous number of wage-earners who cannot employ their labour remuneratively by working on their account, and are accordingly... inclined and ready to sell the future product of their labour for a considerably less amount of present goods...."[122] It was solely their inability to wait out the production process, due to their lack of resources, that made them willing to accept less than their future product for present subsistence.[123]

Hence, although he was unwilling to address the implications, Böhm-Bawerk — again — at least implicitly recognized that time preference, by which he justified the rate of profit, was itself determined by the distribution of wealth and power.

Specific Cases: Free Trade. The neglect of historical and institutional context in regard to free trade is not an issue of marginalism, as such, but of liberal capitalist ideology and right-libertarian analysis in general.

118 Dobb, *Political Economy and Capitalism*, p. 162.
119 *Ibid.*, p. 162.
120 Böhm-Bawerk, *The Positive Theory of Capital*, translated by William Smart (London and New York: MacMillan and Co., 1891), p. 361.
121 *Ibid.*, p. 358.
122 *Ibid.*, pp. 330-331
123 *Ibid.*, p. 83.

One example of this failing is the tendency to treat things like the shift from mercantilism to (at least ostensibly) "free trade" as reflecting some new insight or realization, rather than the reflection of particular interests, and ignoring class and institutional context.

Economists or policy-makers did not suddenly "discover" that mercantilism was "incorrect" in Adam Smith's day. Rather, mercantilism ceased to effectively serve the class interests in control of the state. Likewise, the Corn Laws were repealed, not because people finally realized that protectionism was bad, but because the class interests they served were no longer the dominant party in the class coalition that controlled the state. By the 1830s, Britain abandoned protectionism and slavery, not because of some new insight, or because it has achieved a new level of moral enlightenment, but because it could afford to. They had served their purpose, and were no longer needed.

The same is true of neoliberal ideological framing of so-called "free trade" today. The high industrial protective tariffs of a century ago were abandoned, not because of some new discovery that they had been "misguided," but because they no longer served their purpose for the capitalists. They were quite useful to capitalist industry in an era of national industrial corporations, with an interest in cartelizing industry within individual countries behind the protection of tariff walls. But in an era of transnational corporations, the concept of "national industries" has become largely meaningless. Industry is no longer "American," "Chinese," etc.; production and distribution are managed by corporate entities that operate globally. National trade barriers therefore no longer serve to protect them, but impede their internal shuffling of finished and unfinished goods across borders.

Meanwhile, intellectual property has become the primary form of protectionism that capital relies on, serving the same function for global corporations that protective tariffs did for national industry. What capitalist propagandists misleadingly call the "free trade" agenda is every bit as protectionist — if not more so — than the old-school industrial tariff model ever was. The centerpiece of virtually every so-called "Free Trade Agreement" is draconian enforcement of maximalist patent and copyright laws by multilateral regulatory institutions. Patent and trademark law is what enables transnational corporations to outsource much, most, or all actual production to independent contractors, keeping only marketing and finance in-house, while retaining a legal monopoly on the disposal of the goods produced by these nominally independent sweatshops. The IP provisions of NAFTA, the Uruguay Round, etc., are the modern equivalent of Smoot-Hawley; and they serve the same function, which is enforcing monopolies on the right to sell a given good within a given market.

Likewise, the right-libertarian commentariat continues to cite Ricardo's principle of comparative advantage, and other "free trade" doctrines, as if so-called "trade" were still a matter of American industry, Chinese industry, etc., exporting their respective outputs to each other's countries. But — again — "global trade" is really not trade at all, but the shuffling of unfinished or intermediate goods back and forth within the supply chains of the same global corporations, followed by the shuffling of finished goods around within the same corporations' distribution chains. It qualifies as "trade" about as much as the transfer of ingots from the Soviet ministry of ferrous metallurgy to the ministry of heavy machine tools.

The use of such Ricardian language to promote global corporate hegemony is as laughable as the post-WWII movie shorts produced by the National Association of Manufacturers, in which Pops the neighborhood druggist explains the American Free Enterprise System to Bobby and Susie at his soda fountain.