

A TALE OF TWO SIGHTLINES

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Yanis Varoufakis, Technofeudalism: What Killed Capitalism

Penguin, London, 2024, 304pp.

Andrew Leigh, The Shortest History of Economics

Black Inc., Collingwood, 2024, 224pp.

Two economics professors turned politicians, both Australian citizens (one a dual Greek national), each write an account of capitalist economic development from the birth of civilization to the present day. Technology and markets – tools and trade – feature prominently in both accounts, along with wars, crises, competition, and innovation. Both books are pitched to generalist readers; neither targets academic specialists. But the two accounts are so different one might think their authors live in parallel universes. How can this possibly be? The answer lies in the history of economic thought – and, more specifically, in a great contrast between two ways of thinking about the economy.

Classical Political Economy

The first approach, *classical political economy*, emerged around the middle of the Eighteenth Century from a quest to understand the *nature and causes* of the wealth of nations. The concept of the ‘surplus’ is central:

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that is, output over and above what is required simply to reproduce the economy, and the people who constitute it. The existence and use of the economic surplus fuels investment and growth, and it supports the pursuit of comfort and leisure.

Seeing the economy from this perspective recognizes that inputs (of labour, machines and land) are required to produce output in any period (say, a year). The key point is that the surplus in any period is what remains when the inputs have been replaced. A nation whose output is less than the inputs used in its production is a nation in decline. A stationary state exists where output exactly matches inputs, no more and no less. The wealth of a nation can grow over time only if output exceeds the inputs used up in production: meeting its replacement needs (for labour, machines and land) means the show can go on, and the surplus can then be invested to increase future production.

Whether the surplus actually leads to economic growth, however, depends on *how and by whom* the surplus is accrued. Conceptually, the surplus can be split three ways between the three broad social classes. Landlords own land and charge rent for its use. Capitalists own machinery and factories and make profits when they sell their goods at market for more than the costs (wages, raw materials, wear and tear of machines) incurred in production. Workers sell their labour to capitalists and receive wages.

Seen from this classical political economic perspective, it is the application of labour in production that generates value in the surplus. (Note that, in this context, value is a human construct: in a world without humans there is abundance but not value). And it is power relations ('class struggle') between the broad social classes that govern the distribution of the surplus between them. Production and consumption are two moments in the economic cycle, with production being the driving force.

Marx took the analytical framework of classical political economy to a radical extreme. He argued the working class was being systematically exploited by capitalists, who appropriated the surplus produced by workers. This was a time of social unrest. Workers formed unions. Increasingly, class struggle loomed across Europe.

Yanis Varoufakis' story is told from within the framework of classical political economy. Written as a dialogue with his late father, it is in the tradition of the Socratic method – and even draws on Greek mythology to give colour and punch to the narrative. His focus is the evolution of class conflict in a modern techno-obsessed world. The central thesis of his book

is that we are at an historical pivot in the mode of production, with capitalism being de-throned by a modern-day kind of feudalism.

Varoufakis argues that we are in the ‘Age of Cloud Capital’:

Consider what cloud capital consists of: smart software, server farms, cell towers, thousands of miles of optic fibre. And yet all of this would be worthless without ‘content’. The most valuable part of the stock of cloud capital is not its physical components but rather the stories posted on Facebook, the videos uploaded to TikTok and YouTube, the photos on Instagram, the jokes and insults on Twitter, the reviews on Amazon, or simply, our movement through space, allowing our phones to alert Google Maps to the latest spot of traffic. In providing these stories, videos, photos, jokes and movements, it is we who produce and reproduce – outside any market – the stock of cloud capital. This is unparalleled [...] paid labour performs only a fraction of the work that Big Tech relies on. Most of the work is performed by billions of people for free (p. 84).

For Varoufakis, the feudal world of proletarians, vassals and serfs is mirrored in the contemporary world of cloud capital. A minor fraction of cloud capital’s workforce is paid, just as proletarian artisans were paid in feudal times. Businesses seeking to sell their goods and services through a platform have the character of feudal vassals, obliged to accept the platform’s terms and conditions under threat of being denied access to it. With every click today we reproduce cloud capital, just as serfs were bound to work without pay in return for food and shelter on the lord’s estate. The size and role of markets and market exchange under feudalism was limited; today algorithms shape consumer demand; and platforms deliver goods and services outside of markets populated by large numbers of sellers and buyers in geographical proximity.

Feudalism captured the surplus through rents/taxes and on the back of unpaid labour. Capitalism displaced feudalism, harnessing technological innovations to capture the surplus by paying workers less than the value of their production. For Varoufakis, the age of capitalism – the production of goods and services for sale on the market driven by the quest for profit – has come and gone. Today, in his view, cloud capital captures the surplus through the rents it extracts and the unpaid labour it harnesses; this new world of ‘technofeudalism’ has the distinctive hallmarks of feudalism.

The Neoclassical perspective

A second and very different approach to studying the economy is *neoclassical economics*. This emerged as a distinct conceptual framework around 1870, marking a sharp break with Classical Political Economy. Neoclassical economics was in many ways a reaction against the classical theorists and their sometimes dangerous political conclusions. In what is known as the ‘marginal revolution’, the analytical focus shifted from broad social classes to atomistic individuals, and the core questions to be answered slipped from national growth to individual choice, from distribution to efficient allocation.

Amidst the revolutionary fervor of mid-Nineteenth Century Europe, this marginal revolution – and the associated emergence of ‘economics’ as a discipline distinct from history, philosophy, and social inquiry - found warm reception amongst academic economists and the ruling establishment anxious to intellectually disarm the critics of capitalism.

The neo-classical worldview stood classical theory on its head. Classes and the surplus vanished. Instead, the analysis commences at the level of the individual, each one free to choose how to spend their (limited) income in an open market, seeking to maximize their happiness (‘utility’) subject to the ‘law of diminishing returns’. An individual with 10 shillings a week to spend is free to choose how much to spend on bread, vegetables, clothes, rent, medicine, beer, and other needs or wants. Neoclassical economics says they will spend their budget in a manner that maximizes their ‘utility’, ignoring the obvious question as to why many individuals have less than 10 shillings to spend but a few have millions. Utility maximisation occurs when the satisfaction they get from spending another penny on an additional unit of bread, vegetables, clothes, rent, medicine, beer (and indeed all their other needs or wants) is the same for each item consumed.

Adding up the consumption choices of all individuals establishes the level of aggregate consumer demand for goods and services. Firms respond to this demand by producing the corresponding items and supplying them for sale at market. The higher the price for any given item, the more will producers be willing to supply and the less will consumers be willing and able to buy. Supply curves slope up, demand curves slope down: where they meet is a point of equilibrium – where supply matches demand and everyone’s happiness is maximized. Moreover, each factor of production receives its ‘just return’ – the wage is determined by the marginal product

of labour; the rate of profits by the marginal product of capital; and rents by the marginal product of land. Value derives not from objective application of labour in production, but from the subjective preferences of individuals in consumption.

In this free market heaven, there is no place nor justification for class struggle, since there are no classes – just a collection of individuals possessing randomly distributed ‘factors of production’. Margaret Thatcher was channeling the neoclassical mindset perfectly when she infamously proclaimed: ‘who is society? There's no such thing! There are individual men and women and there are families.’

Andrew Leigh’s story is told from this neoclassical viewpoint, though he does not once mention the term ‘neoclassical economics.’ Defining economics as ‘a social science that studies how people maximize their wellbeing in the face of scarcity’, he claims to tell ‘the story of capitalism – of how our market system developed’. Leigh says economics ‘considers the behaviour of people as individuals’, claims to show how the discipline of economics was formed, and to identify the key figures involved.

This is overreach. Leigh’s rollicking, eclectic collection of anecdotes and factoids is an easy, racy, captivating read, a potted history of human activity and accomplishments over time. There are Freakonomics-style cameos providing economic angles on religion, migration, beauty, discrimination, tulips, shipping, and philanthropy. There is discussion on money, depressions, inflation, climate change, and much more. But the book turns a blind eye and deaf ear to a long and rich historical vein in economics: contrary to its title, Leigh’s book is neither an economic history nor a history of economic thought.

Leigh opens with a discussion of the amount of labour time required to produce a unit of light. In prehistoric times, light after dark came only from wood fires, and 58 hours of foraging for fuel were apparently needed to produce as much light as a household bulb produces today. In between were oil lamps, candles, and gas lamps, each innovation reducing the amount of labour required to produce the same unit of light. Today ‘less than one second of work’ will meet the cost of running a light bulb for an hour. Leigh certainly appreciates the importance of work: for example, he notes perspicaciously that ‘We are more likely to ask someone we’ve just met ‘What do you do?’ than ‘What do you buy?’ However, he has no sustained description of how human labour drives the production process, and he certainly makes no overt reference to a labour theory of value.

His story is about technology, specialization, incentives, and markets. He notes that the inception of farming marked a turning point in world history, as ‘it allowed communities to build up a surplus’. However, in this account, the surplus does not provide the wherewithal for investment and growth (as portrayed in classical theory); rather, the surplus provides ‘consumption smoothing’, the possibility of eating well between harvests and insurance against famine, or for rulers to fund repressive armies. Leigh interprets historical events through the prism of individual choice and market exchange. In effect, he says, under feudalism ‘peasants fed the nobility in exchange for protection against bandits’.

Feudalism, capitalism, markets

The interpretations of feudalism are strikingly different. For Varoufakis, economic life under feudalism ‘involved no economic choices’. Landlords owned the commons and ruled the social roost, their power deriving from the rent they extracted (sometimes through cultural norms, sometimes through brute force) from their vassals and serfs. Artisanal production and commerce generated some profit for vassals. Serfs received no wages and had nothing to sell. The rentier class captured the surplus generated by their serfs and vassals and used it to maintain their power and position.

In Varoufakis’ account, from the early-Eighteenth Century technological innovations in agriculture and industry saw capitalism dethrone feudalism as the dominant mode of production, profits displace rents in capturing the bulk of the surplus, and waged labour emerge as a distinct social class. For Leigh, it was the bubonic plague – the Black Death – which killed feudalism. So many died that labour became scarce and land abundant, causing rents to fall and food to become cheaper. Leigh’s account is typical of neoclassical thinkers who seek to explain everything in terms of supply and demand.

For Leigh, markets are good except when they fail. Market failure occurs when externalities are not priced properly, when firms engage in ‘anti-competitive behaviour’, and when firms have monopoly/monopsony power. The correct response is for the government to price pollution (including carbon emissions), to outlaw misleading and deceptive conduct, and to implement competition policy that makes market structures more like the textbook perfectly competitive model. For Varoufakis, conversely, competition is no magic bullet: real capitalist competition is

brutal, all about taking out competitors, capturing market share, predatory pricing and price fixing, exploiting workers.

Strangely, Leigh does not mention the about-face over the past 30 years by most of the economics profession about the impact of minimum wages on employment in the labour market. Leigh's assertion that 'Most Meta content moderators don't work for Meta. Most Amazon delivery drivers don't work for Amazon' is plainly wrong. Content moderators and delivery drivers do work for Meta and Amazon respectively, but typically as dependent contractors not as employees, and thus with fewer rights at work. That these firms use loopholes in labour law to more ruthlessly exploit their workers hardly means that the workers don't work for them.

For Leigh, governments are bad except when they are good. Communist central planning is inefficient; market signals work best; governments should not try to 'pick winners' but have a role in making markets work better. For Varoufakis, the economic controls used by the Allies in the Second World War provide the exemplar of successful central planning.

In Varoufakis's story, as in classical political economy, periodic crises are endemic to capitalism. In Leigh's story, the field of macroeconomics did not exist before the Great Depression of the 1930s and was born with Keynes' General Theory; Leigh is frustrated that, a hundred years on, 'economists have failed to tame the boom-and-bust cycle'. He apparently believes that it is possible to put recessions into the rear-view mirror.

Prospects

So, what are the prospects now? Varoufakis's profound, bleak insight is that the current and emerging world of cloud capital has the hallmarks of feudalism and spells the end of capitalism. Platforms like Amazon and Alibaba are not markets, not places where individuals come together to buy and sell wares; sellers must pay rent to the platform provider to showcase their goods and services; buyers are taken by algorithm to the things on offer; and with every 'click' consumers provide data for free to the platform providers which then feeds the algorithm. Although his case is compelling for retail activity, international trade in such things as bulk raw materials, machine tools, automotive components or luxury yachts does not yet appear to be conducted through platforms. Nor are multinational supply chains so intermediated, at least not yet. It is clearly over-reach to claim that capitalism is already dead.

Varoufakis courageously attempts to imagine ‘another now’ and to outline what a better world might look like. He posits democratized companies in which each worker owns one share; and all corporate decisions are taken collectively based on ‘one share, one vote’, presumably on the basis of full information. This is a big ask. A core tenet of neoclassical theory is that individuals act independently on the basis of full and relevant information. *Homo Economicus* – the neoclassical individual who weighs up every current and future price and probability in making every choice decision – could not survive Herbert Simon’s insight (which won him the 1978 Nobel in economics) that humans do not have the cognitive capacity to do what *Homo Economicus* is supposed to do. Varoufakis’ idealized worker-shareholder labour force in perfectly democratized firms (eerily similar to the neoclassical model) is vulnerable to the same criticism.

Leigh’s enthusiastic proselytizing for his neoclassical view of the world’s history and future prospects is a meandering collage of ‘Wow!’ and ‘Oops!’ insights. Trade and specialization are wonderful, but global political turmoil and pandemics can leave us stranded if we have no domestic production. Prosperity comes from markets, provided that governments sufficiently manage risk, undertake insurance against catastrophe, and offer a safety net for the weak and poor. Governments have a big role to play in research and development, in driving innovation, and in combatting climate change. Overall, it is not clear whether Leigh wants more markets or more market intervention.

Varoufakis made me think. Leigh occasionally made me smile, but his arrogation of the history of economics mostly made me squirm. Both books can be recommended for the coffee table. Beyond this, the one by Varoufakis could be a useful inclusion on reading lists for courses on political economy that encourage debate about the changing character of capitalism in the current era.

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