days—from Harvard academic Michael Sandel's fine Reith Lectures[41] to the decidedly less convincing Lecce Framework of "Common Principles and Standards for Propriety, Integrity and Transparency" endorsed by the Group of Eight largest economies in July 2009. In official discussions, unethical usually means something that one should be ashamed of, but isn't actually illegal. The calls for capitalism to moderate its unethical behavior resemble the calls for corporate social responsibility of the 1990s, when the heads of several major companies promised not to destroy the environment or, if they had to, to do it as kindly as possible.

For a better understanding of the ethics of valuation, it's worth revisiting the original thinkers behind the free market, who had a robust sense of how prices, value and the wider economy worked. Before there were economists, students of market society were called "moral philosophers," and when they pondered the market, they were less concerned with the behavioral integrity of high finance or the interaction between consumer and producer, and more concerned with how value is bound up with indelible inequalities in power. Modern economics suffers from amnesia when it comes to what these philosophers had to say about value. The spirit of capitalism is jealous, and for it to thrive, different ways of thinking and valuing the world need to be smothered. But if the countermovement against profit-driven thinking is to be more than cosmetic, we'll need to start remembering some of that original moral philosophy.

(FOUR)

ON DIAMONDS AND WATER

> **Capitalism is the astounding belief that the most wickedest of men will do the most wickedest of things for the greatest good of everyone.**
>
> —JOHN MAYNARD KEYNES[1]

Over 1.4 million of Ayn Rand's books have been given away to American high schools by the institute that bears her name—the books are free to any teacher prepared to make their students suffer them. Her work is taught as a sort of Adam Smith Lite, an entry-level text in support of the free market that finds its most articulate and subtle formulations in the works of the great Scottish philosopher. This is unfair to Smith.

While Rand spun tedious rationalizations for selfish behavior, Smith was very far from a praise-singer for unfettered markets. The term with which his name is most singularly associated, "the invisible hand," appears just once in *The Wealth of Nations*. When it does, it isn't used to describe the beneficent effect of free markets at all. The invisible hand is the guiding force that makes Scottish investors behave parochially, preferring to put their money into the Scottish economy rather than investing abroad. By investing in their local economy, investors get a return, of course, but so does the society in

which they invest and, because they live there, investors enjoy the economic stimulus too. This is the beneficial yet unintended consequence of investors' selfish motives, and it only comes about because of a preference for domestic over international investment. Not exactly the policy that people who quote Smith are usually in the business of advocating when they talk about the invisible hand.[2]

Smith was a far more subtle and complex thinker than his free-markets-rule caricature, holding sophisticated views on many of the issues that tax modern economics. His opinion on whether money could buy happiness, for instance, was that it couldn't: "In ease of body and peace of mind, all the different ranks of life are nearly upon a level."[3] He also thought that a primary animating principle behind economic activity was vanity. People worked in order to pay for things that held the esteem of one's peers. This keeping-up-with-the-Joneses, where everyone works ever harder to stay where they are in the eyes of their society, is today's "hedonic treadmill." But it is in his understanding of value that Smith and his descendents have most to teach us today.

In modern economics, students are often introduced to the mechanics of value through a classic comparison: Why are diamonds so expensive when they're so unnecessary, when something vital like water is so cheap? Here's what Smith had to say about water and diamonds in *The Wealth of Nations*:

> The word value . . . has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called "value in use"; the other, "value in exchange." The things which have the greatest value in use have frequently little or no value in exchange; and, on the contrary, those which have the greatest value in exchange have frequently little or no value in use. Nothing is more useful than water; but it will scarce purchase anything; scarce anything can be had in exchange for it. A diamond, on the contrary, has scarce any value in use; but a very great quantity of other goods may frequently be had in exchange for it.[4]

In the economics classroom, today's undergraduates are taught that Smith's distinction between "use value" and "exchange value" caused him no end of trouble. Having two categories of value, one for when you use something and one for when you exchange it for something else, doesn't leave you any wiser about how valuable something is—no one talks about anything having a high use value but a low exchange value.

Undergraduates then learn that they are saved from confusion and puzzlement by a new breed of thinkers: nineteenth-century neoclassical economists—the British William Stanley Jevons, the Austrian Carl Menger and the Swiss Léon Walras—who, equipped with the latest in physics and mathematics, then solved the problem of value by understanding it as a question about prices. They did it by looking at the margin, at what happens when you add an extra unit of something to the market. They were able to show how and why prices look the way they do because water is relatively abundant and diamonds scarce.

The value of diamonds or anything else in neoclassical economics is a measure of what would be given up in order to obtain them. As the value of something is measured through exchange, you can't tell the value of something just by looking at it, or knowing how much it cost to make, or the good that it might do you. According to the neoclassicals, to find its value you have to trade it—that's the only way that our individual preferences can enter the public language of commerce.

This is how the paradox of something vital being cheap, but

something unnecessary being expensive, is explained. What is omitted in this version, however, is that no one seriously thought there *was* a paradox until the late nineteenth century. The diamond and water conundrum was popularized by a post–World War II textbook written by economist Paul Samuelson. The culture of free markets needed a bible, and Samuelson's 1948 *Economics* provided just the right sort of revisionist history.[5] It ignored the fact that Adam Smith understood very well why diamonds were more expensive than water. In his 1762 *Lectures on Jurisprudence*, he put it rather plainly:

> For these terms plenty and cheapness are in a manner synonymous, as cheapness is a necessary consequence of plenty. Thus we see that water, which is absolutely necessary for the support of mankind, by its abundance costs nothing but the uptaking, whereas diamonds and other jewels, of which one can hardly say what they serve for, give an immense price.[6]

In explaining the price, Smith points to relative scarcity, just like the neoclassical economists. The difference is not between their explanations of price, but in their concepts of usefulness—Jevons and the neoclassical economists have an abstract and quantitative utility, while Smith has a qualitative idea of value-in-use. To paraphrase Oscar Wilde, people today know the exchange value of everything and the use value of nothing. Smith's idea of use value is best understood not as an unsuccessful attempt to develop a theory of marginal utility so much as a technique for looking behind the scenes to explain why economic activity looked the way that it did at a more fundamental level. To separate out the superficial world from this deeper reality, Smith introduces a distinction between what we pay and a thing's "real price." For Smith to get from market price to the real one required time and effort:

> The real price of every thing, what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What every thing is really worth to the man who has acquired it, and who wants to dispose of it or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people.[7]

Smith grappled with the links between value, labor and wages. In his view, the yardstick of the real value of everything was the trouble that went into making it:

> Labour alone, therefore, never varying in its own value, is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared. It is their real price; money is their nominal price only.[8]

He thought that the reason that some jobs were better paid was simply because some people were more willing to suffer the loss of nonmonetary goods. The reason a park keeper makes less than a stockbroker is because the broker doesn't get to spend the days walking in the woods. Smith thought that wages would tend toward equality in the long run, with minor discrepancies relating to the amount of time people could take for holidays and compensating for the unpleasantness of the job. By this calculus, people who work in sewers at night ought to be billionaires. For Smith, the fact that the world clearly didn't work like this signaled that something was wrong with the economy, something systemic, something that distorted what different groups of people received for their work.

These aren't the views typically associated with Smith, at least in modern lay thinking about him. Smith's fate was to end up as a crest

on Reagan-era neckties, a legitimating figurehead for an untested experiment in neoliberal capitalism, but compared to Karl Marx, he got off comparatively lightly. Marx has had a far rougher ride, purged from the canon of economics as an insult to the purity of neoclassical thinking. You'd think that Marxist economists wouldn't be able to find a home anywhere in the academy, but they do exist, and—according to anecdotal evidence—many seem to have managed to find refuge not in the airless corridors of the economics department, but in business schools. With good reason. Although contemporary economic theory has little room for his thought, Marx has a great deal to say about contemporary economic practice.

Karl Marx agreed with Smith that time and effort were central to the production of goods, but he went one better, unpicking how that time and effort mattered through "the labor theory of value." Let's pretend that you are an ace short-order cook, and you can flip two hundred hamburgers an hour. I, a lapsed Hindu with beef issues, might be able to cook twenty in an hour. Does that mean that mine are ten times more valuable than yours? A simple labor theory of value would say yes, but Marx pointed out why the answer is clearly no. Very simply, yours is the normal industry rate of productivity, and I'm a laggard. The way Marx talks about this is through the idea of the "socially necessary" labor time—my hamburger flipping takes far longer than the socially necessary time, the time that's normal in an industry. The word "social" here implies that it's never "natural" but, rather, the outcome of a great deal of human invention, politics and power.[9]

This idea of socially necessary labor time opens the door to a central difference between Smith's and Marx's views on wages. Smith thought that, distortions aside, wages were a return on the amount of work that you do. For Marx, wages were the money you got for making your ability to work available for use by the capitalists. For a certain chunk of the day, the laborer works to earn enough money that might be exchanged to feed, house and clothe her family. But the laborer will work a whole

day, because that is what her employer has paid for. This is the fulcrum of his theory of value, because the ability to work is a magic ingredient, one that can add use value to raw materials unlike anything else that capitalists can buy. Any value beyond that which it takes to replenish the laborer's ability to work goes to the person who hired her. Marx calls this the "surplus value," and this is the ultimate source of profit.[10]

From this little dance—in the exchange of work for money, and money for commodities—Marx pulls a description of capitalism. Capital isn't just money—a chest of banknotes isn't capital. Capital is the *process* of transforming money into commodities that can be sold for more than the wages paid to the workers and the costs of machines and materials, to make a profit.[11] The capital that is generated from this process has taken on a life of its own, as financial capital.[12]

As definitions go, it's not bad. It points to the constant process of growth and expansion that capitalism needs to sustain itself. It suggests why *Homo economicus* is the perpetually ravenous creature of such an economy. It also points to a central inequality in power, between those who control capital and those who have nothing to sell but their labor. In other words, the definition binds together ideas of power, ownership, work and—crucially—profit. These ideas prove useful in understanding not only the conundrum of value, but also how we might start to unlimit ourselves by restraining profit-driven markets.

It's not by labor alone that value is created. Another route through which profits might be expanded is by having to pay less to workers. The cheaper it is for workers to survive and reproduce, the better for profits. While it is beyond the means of any single capitalist to lower the price of labor power, it is something that they together can fight for collectively, as we shall see. To reproduce workers requires more than making babies: It's a long process of child-rearing, feeding, clothing, housing, educating, socializing and disciplining, and the costs of this are the source of perhaps the most fundamental misvaluation, worldwide—the market's treatment of women's work in

the home. The daily work of rearing children, maintaining a household and engaging in civic work—the unpaid slabs of work that feminists have called "women's triple burden"—remains unpriced worldwide. Were all unpaid work to be remunerated, the sum was estimated in 1995 to be $16 trillion. Just to be clear, that's $16,000,000,000,000. Of that, $11 trillion represented women's unpaid work.[13] That's $15 trillion in 2007 dollars. Back in 1995, this was more than half of the world's total output. What's worse, this miscalculation isn't innocent. It's *because* this reproductive work has been naturalized as women's work, and because women's work is unpaid, that there can be such a large paid economy.[14] Because their work is uncounted, women appear to have "free" time, time that is used by development agencies to explain why women are able to "burden share," to pick up some of the slack where public services fail. This sexism spreads to the wage economy too—according to the International Labour Organization, women in most countries earn between 70 and 90 percent of what men earn for the same work, though in some places, particularly in Asia, that figure is lower.[15]

There's a final route through which profit might be created, one that doesn't involve labor: enclosure. Polanyi's observations about the creation of market society aren't mere historical curiosities. Geographer David Harvey has written about how the capitalist search for new resources to privatize generates its own maps of crises. When a national forest is sold for timber, biodiversity is put under patent or mineral rights are auctioned off, there's an enclosing, a privatizing of that resource that allows someone to profit from it at public expense.

Marx's discussion of the economy works by asking where it is that value comes from. He traces it back to labor, and then explores the dynamics of profit seeking in market society. It's a way of thinking about market society with great explanatory power, showing the origins of externalities in the rise of capitalism and in the social forces at play within our market society. It explains why corporate behavior

consistently skirts the boundaries of ethics and legality—the corporation's need for profit drives it to rapacity and setting ethics firmly to one side—even if ultimately, Marx thought, the persistent quest for profit would lead to the end of capitalism itself.

Although today's economic crisis looks dire, Marx's predictions haven't come true quite yet.[16] Our current economic turbulence is a result of the way capital is invested, and the life that money takes on when it is not industrial capital, but finance capital.[17] Although Marx understood the importance of finance better than classical and neoclassical economists, his analyses come with a politics that are fundamentally incompatible with the ideology of today's market society—it's far easier to think about the crisis as the result of poor regulation or bad apples on Wall Street than to see it as emerging from a social system into which we have been folded. It is perhaps for this reason that in explaining today's recession, the theories of a much more recent economist, one who grew up amid the machinery of finance and whose thought presents only a moderate challenge to prevailing ideas about market society, have taken center stage: the twentieth-century British economist John Maynard Keynes.

THE SECRET LIFE OF FINANCIAL CAPITAL

Keynes began his economic career as an ardent disciple of neoclassical wisdom, spending much of the 1920s arguing its merits. The Great Depression spurred him into being one of its most insightful critics. It was to himself, as much as his peers, that he aimed one of the most frequently quoted parts of his *General Theory*:

> Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear