

1

The Birth of Economic Productiveness

It is of no little interest, and importance, too, to observe how economists have denied productivity now to this class, now to the other.

Lewis H. Haney (1911)¹

What is the contribution of banks, and in particular their services of financial intermediation, to the production of wealth? It is the answers that have been given to this question, and the various representative technologies through which such answers have been crafted, that I begin to probe in this chapter. Doing so will, I hope, offer already at this early stage a clear demonstration of what later develops into a central theme of the book as a whole: the importance of boundary placement in regimes of economic representation. Thus we will see, amongst other things, that opinions as to banking's "worth" have very often been based upon the assignation of banking activities to one side or other of the productive/unproductive boundary – and, indeed, to either side of various other closely-related conceptual borders.

The period covered in this chapter is a formidably vast one, starting in the pre-Christian era and leading all the way up to the 1930s and the key figure of John Maynard Keynes. There are three important reasons for casting the net this expansively. First, and most obviously, it is vital to forestall the tendency to presume "it was ever thus." The representations most familiar to us today are almost inevitably those of most recent vintage and those granted the most substantial and sustained public exposure. As I will go on to argue in Parts II and III, the representations of productiveness emanating from national accounts have, over the past 70 or 80 years, assumed a particular and heightening significance. But, vitally, they are far from being the *only* representations that history has bequeathed to us.

On the contrary: all manner of different perspectives on the contribution of banks and financial intermediation have been offered up at different times and in different places, and it behooves us to treat these with the same seriousness as those which happen to enjoy pre-eminence in the narrow historical-geographical conjuncture that is the early twenty-first century here-and-now.

Second, and related to this point, is a question of understanding. Not only would a restricted focus on more contemporary representations risk endowing such representations with a veneer of naturalness or universality, it would also make the task of understanding those representations *themselves* a difficult if not impossible one. We cannot understand without context. Representations developed and propagated in the post-war era may be different in various ways from those that have come before, but they are not independent of them: they build upon them, even if sometimes through opposition. To enrich our comprehension of what national accounts and other contemporary fields of representation say about economic productiveness, therefore, it is necessary to identify and interrogate their long-term conceptual lineage.

Third, and most important of all, there is the matter not just of boundary placements, but of boundaries per se. The “production boundary,” as we will see, is one of the most fundamental theoretical concepts in the national accounting canon; where activities are placed in relation to this notional boundary essentially determines, for national accountants at least, whether such activities are deemed “productive” or not. But this boundary, we should be clear, is not something with an objective, pre-existing substance of its own – something simply waiting “out there,” as it were, to be discovered, and then to have economists, politicians and other “authorities” place different activities on either side of it. Placements can only be made once the boundary underpinning such placements has itself been conceptualized into existence; and the “production boundary,” in turn, depends upon the prior construction of something *called* “productiveness.” Where does this concept come from? Who created it, and why? What will become clear in this chapter is that twentieth-century national accounts created neither productiveness nor the boundary separating it from the unproductive.

While my emphasis in this chapter is very much on the *economic* dimensions of historical representations of banking (and especially the core question of economic productiveness), the emphasis is not an exclusive one. I also consider what might be termed moral or social perspectives on what it is that bankers are perceived to do. Part of the reason for this is that, particularly the further back in time one goes, it is often hard to disentangle purely “economic” considerations from “non-economic” ones. Indeed, one could argue, as both Max Weber and, latterly, Jürgen Habermas have famously done, that modernity is defined precisely by the gradual processes of differentiation between such “spheres.”² Another part of the reason for looking beyond the economic is that economically-oriented representations, with a few notable exceptions, barely existed in the form we tend now to understand them prior to the birth in the eighteenth century of the tradition of political economy and its central inquiry into the sources of wealth creation; yet the “economic” representations of banking that did then begin to

proliferate called upon, in various ways, different representative themes that had been evolving since long before – not least the centuries-old excoriation of usury.

This last observation leads directly on to a final, related point I need to make here. If, as I argue later in the book, national accounting became over the course of the twentieth century a primary forum for the “making” of economic productiveness – and thus, one might even suggest, of an activity’s deemed inherent worth more generally – it is clear that other representative “technologies” served such purposes in earlier times. Certainly, from the mid-eighteenth century, political-economic theory was one such; but it was not alone. Assessments of banking and the activities of bankers, loan brokers and other financial intermediaries have featured prominently, for many centuries, not only in avowedly “factual” discourses (like, from the eighteenth century, political economy), but also in professedly “fictional” traditions (literature, for example) and in those discourses widely seen to mix fact and fiction, such as religion and philosophy. Tracing the genealogy of contemporary “productive finance” hence necessitates engagement with all these fields. Indeed, a compelling reason for *not* limiting our research to putatively fact-based discourses has been persuasively put forth by Mary Poovey: namely, that while prior to the eighteenth century there existed a range of different types of writing on money and finance, these neither were consistently differentiated from one another in format or function, nor did they distinguish clearly between what *was* fiction and what was fact.³

With these preliminary observations in mind, the chapter begins with a relatively brief overview of the evolution in perspectives on “banking” in the centuries prior to the formal development of what we understand, today, as a *banking system*. The relatively narrow focus in this first section is on the practice of lending money at interest: what was written about it, and what kinds of dichotomies were erected to demarcate positive assessments from negative ones. The second and third sections of the chapter then move onto the “modern” era. Section two is given over to perspectives on banking formulated in literature, in philosophy, and – to the extent that it can be segregated from either of those two, or from political economy – in politics (Western religion had, by this point, effectively put to bed its own quarrels on such matters). Section three explores in turn the conceptual placement of financial intermediation in European, and largely British, political economy: the tradition of the Physiocrats, of Adam Smith, and of Malthus, Ricardo and Marx. Together, these two discussions take us up to the late nineteenth century. The fourth and final part of the chapter is intended to bridge the gap between where section three leaves off (with Marx) and Chapter 3 later picks up (with Keynes): a gap most notable, in the context of this book, for the emergence of neoclassical economics.

Scourging the Money Lenders

There exists in the historical literature considerable debate over the origins of modern banks. Yet upon gaining only a modest level of acquaintance with that literature, one thing becomes readily apparent: the identification of origins

depends very much on the definition of “banks” being used. Some authors, thus, argue that what we can think of as banks appeared as early as the fourth century BC, in ancient Greece.⁴ Others, greater in number, point to twelfth-century Italy, or to the Low Countries in the fourteenth century.⁵ But if we are interested in the systemic emergence of the type of fractional-reserve deposit banking and associated nexus of credit creation that has come to define modern banking, most scholars would agree that late-seventeenth-century England was the key crucible. Even Raymond de Roover, the author of two brilliant, seminal books on early banking in Italy and Belgium, concedes as much:

It is true that the modern banking system based on the circulation of notes and the discounting of commercial paper was evolved in England during the seventeenth century. This development originated in the exchange, deposit, and lending activities of the London goldsmiths under Elizabeth and James I and culminated in the foundation of the Bank of England in 1695, during the reign of William and Mary.⁶

In this chapter, therefore, when I turn in the two following sections to discuss social perspectives on the contribution of modern banks per se, England, and the period from the 1650s onwards, becomes my main focus.

Here, meanwhile, we will deal with the much longer historical period leading up to and including the sixteenth century, with our spotlight trained upon the one activity that can be traced with some consistency all the way back into the classical era which *does* remain central to what banks still do today: issuing credit, which is to say lending money at interest. And while, as we will see, a series of powerful conceptual couplets emerged over time to frame dominant perceptions of profit-oriented money-lending, perhaps the most pertinent observation to make of this period concerns a couplet that did not substantively materialize until *later*: the productive/unproductive distinction. Indeed, not only was the activity of credit provision not couched explicitly in such terms; but in the English language, at any rate, the word “productive” *itself* did not enter common parlance, in any of its various meanings, until the early seventeenth century.⁷

Before examining those representative tropes that *were* widely mobilized in the representation of money-lending through antiquity and the Middle Ages, however, we must first pause to consider a towering historical figure who discoursed stridently on this activity, and whose words have, in some readings, been taken as a commentary on economic “productiveness.” This figure is the Greek philosopher Aristotle. As the English economic historian William Ashley once remarked, it had become, by the late-nineteenth century, more-or-less accepted scholarly wisdom that Aristotle saw money as “barren” and thus held that “interest cannot justly be demanded for use of it.”⁸

That Aristotle’s famous monetary critique in his *Politics* is often seen as a statement on the nonproductiveness or economic “sterility” of credit is understandable. For one thing, his commentary was indeed based at least in part on economic – rather than purely ethical – considerations.⁹ Moreover, his thoughts on money clearly influenced many of the great modern political economists for whom, as we

will see below, banking in general – and lending at interest in particular – *was* an economically unproductive activity. Not least among these was Marx, and particularly his arguments in Volume 3 of *Capital* about capital achieving “its most superficial and fetishized form” in the shape of credit money. (Compare, for instance, Aristotle’s “birth of money from money” with Marx’s “money breeding money.”)¹⁰

But two caveats are in order here. First, a case can be readily made that the “productiveness” reading was one that came to be imposed on Aristotle retrospectively, in an era when the conceptual distinction between economic productiveness and nonproductiveness *had* become both meaningful and germane.¹¹ This case is buttressed by the fact that Aristotle himself did not use the word “barren”; what he said was that “of all modes of making money,” charging interest on loans “is the most unnatural” (suggesting a moral, not economic, judgment); “barren” was only attributed to Aristotle later, implicitly by Shakespeare in *Merchant of Venice* (Antonio asking “when did friendship take | A breed of barren metal of his friend?”), and then explicitly by arch-critic Jeremy Bentham (claiming Aristotle had alleged that “all money is in its nature barren”).¹² Second, and more importantly in my view, if there was, in Aristotle, an argument about interest and “economic productiveness,” or more generically about the role of credit in value or wealth creation, it was one that was comprehensively missed by Aristotle’s chief interlocutors for over two thousand years.

Instead, from the time of Aristotle essentially up until the time of Adam Smith, hegemonic social perspectives on money-lending were overwhelmingly moralistic or legalistic in nature; and very often, in societies pervaded by natural law conventions, they were both, as was quintessentially the case with Christian canon law. James Ackerman, in fact, in an excellent overview article, argues that for Aristotle himself, interest was “inherently unnatural *and unjust*.”¹³ And like so many in the centuries after him, Aristotle used, when speaking about interest, the familiar term that by his time had already become, and which still remains, deeply pejorative: usury.

But what exactly is this “usury” about which so much has been said and written? Today, we typically think of usury as the charging of “excessive” interest – this loan rate is usurious, that one is not – but this definition and understanding is actually a relatively recent one. For the bulk of the history of money and of its lending practices, usury meant *all* interest, “whether high or low, excessive or moderate.”¹⁴ It was only in the early modern period, as Margaret Atwood observes in her fascinating and accessible history of debt, that “usury changed its meaning from mere interest-charging to exorbitant interest-charging.”¹⁵

This change came about slowly, and certainly not without struggle: Jacques le Goff appropriately describes the controversies and battles over usury as constituting one of the great “labour pains” of early, merchant capitalism.¹⁶ Such pains were experienced most acutely of all by the Church. It was the Catholic Church that, since its very inception, had consistently led the campaign against interest in the Judeo-Christian world; and it was the nonconformist churches and their leading theologians that, from the early fifteenth century, decisively reshaped the meaning of usury and, more importantly, the underlying moral economy of

lending money at interest. While, in early tracts, Martin Luther had “condemned interest energetically,” he later changed his position; and even more influential in legitimizing interest were John Calvin’s teachings.¹⁷ The upshot, in any event, was a rewriting of usury laws in major Protestant (and proto-capitalist) countries to permit the charging of interest up to specified ceilings, most notably in the Netherlands (in 1543, to 12%) and England (1545, to 10%).¹⁸ The rest of the Western world gradually followed suit. And while debate continued, “the battle was over. Interest became a permanent fixture in Western civilization. The usury debate began to assume its present proportions – discussion of when interest becomes excessive.”¹⁹

While a thorough overview of the longstanding, pre-1500s critique of usury – usury *as interest* – is neither viable nor necessary here, it is important nevertheless to grasp that critique’s main lineaments. For it was not homogeneous, and nor did it remain stable over time. Moreover, the ethico-intellectual critique was often thoroughly wrapped up with decidedly worldly considerations: the Church’s overt association of usury with Jewish moneylenders being perhaps the most noteworthy example of such.²⁰ If we were to try to extract and highlight some key trends in discourses on usury – from their origins in the ancient world (witness the frequent denunciations in the Old Testament), through the early teachings of the Church Fathers, the later analyses of St. Thomas Aquinas and fellow Scholastics, the influential-if-idiosyncratic interventions such as those famously offered by Dante in his *Divine Comedy* (which consigned usurers to the Seventh Circle of Hell) and the Shakespeare of *Merchant of Venice*, and all the way up to the final flickerings of those discourses-proper in the fires of the Protestant Reformation – perhaps three would stand out.²¹

First, there was a hazy but ultimately definitive shift from the condemnation of charging interest on loans specifically to the poor, to the condemnation of interest *per se*. The former type of critique, seemingly most concerned with the social consequences of lending at interest, is particularly noticeable in the various books of the Old Testament; by the time of Aquinas (1225–1274), by contrast, emphasis had shifted to “the intrinsic ‘immorality’ of interest itself.”²² Second, and as recounted by, among others, Le Goff, the *degree* of immorality or sinfulness that usurious acts were seen to represent also changed over time: hence Le Goff’s telling of how usurers came to be condemned to Purgatory rather than, as was previously the case, to Hell.²³ Third, and also related in various complex ways to the Church’s growing need to reconcile itself to a world in which money and its lending and borrowing were simply facts of economic life (not least in terms of the economy of the Church itself), historians have documented the numerous methods dreamed up – and sanctioned, explicitly or implicitly, *by* the Church – effectively to circumvent usury laws. These included so-called “triple contracts” (forms of partnership) and *rentes* (also referred to as annuities). A whole series of fraught conceptual distinctions – based on ownership or, as in Aquinas, on the differentiation of “fungible” from “nonfungible” goods – were inevitably invoked to legitimate such financing instruments and, in the process, to distinguish “licit rents and profits” from “mortally sinful” or “unlawful” usury.²⁴ Perhaps the most

famous of such instruments were the bills of exchange that came to be used extensively by the dominant Italian “bankers” of the fourteenth century such as the Medici family. These bills, which we shall encounter again shortly but will only consider in any depth in the following chapter, essentially served as personal checks for use as means of payment in foreign trade transactions.²⁵

What, therefore, in summary, are we to make of the centuries-long critique, emanating centrally from the Church but also circulating widely outside it, of historic practices of lending money at interest? What is arguably most striking about those discourses in which money-lending figured prominently is their overwhelmingly *normative* nature. These were worldviews with very clear principles about the way the world *should* be, not just the way it temporarily was. And within this overall framework of normativity, interest invariably fell on the wrong side of the moral-legal boundaries through which the world was to be navigated, policed, and reconfigured: which is to say that what was said about it was not only normative in nature, but was overwhelmingly *negative* in content.²⁶

If this was the case, then, how should we approach the somewhat contrary argument recently made by the historian Niall Ferguson in his widely-read *The Ascent of Money*? Ferguson agrees that for much of human history usury had been condemned, but claims that by the mid-fifteenth century a different view of money-lending, and of the “banks” who practiced it, had crystallized. “Having once been damned,” he writes, “bankers were now close to divinity.”²⁷ Given both Ferguson’s profile and the direction of the arguments I have offered here, this contention requires our consideration before we move on to the era of modern deposit banking in the next section.

Ferguson’s “divinity” assertion is made, critically, in the context of a discussion of Italy’s Medici dynasty and their methods of monetary circulation. Because the Medici did not fall foul of social or religious censure, Ferguson’s conclusion is that attitudes to “banking” and money-lending had somehow changed. And, in one sense at least, he is right: the Medici, as de Roover remarks, *did* for the most part live as “respected citizens” rather than ostracized usurers. But what Ferguson fails to acknowledge is that they were able to do so only by dressing up the (forbidden) interest payment mechanism as something else entirely. The bill exchange transaction, it was argued, was not an interest-bearing loan but instead either a mere “commutation” of – by definition – moneys of equal value, or a buying and selling of foreign currency. As de Roover writes, “speculative profits on exchange served as a cloak,” with “the presence of concealed interest” nonetheless being “undeniable.”²⁸

To Ferguson’s hypothesis, therefore, we can rejoin that the Medici can scarcely have made banking “divine,” for in the sense that banking was and (assuredly) is today centrally associated with credit provision, they were not regarded *as* bankers. The explicit charging of interest remained, at least until Luther’s *volte face*, unlawful and immoral; indeed “many a [Medici] banker,” privy to the exchange bill machinations that were hidden from public view, appeared to internalize social censure in the form of “an uneasy conscience about his unholy deals.”²⁹ And where banking and bankers *were* explicitly associated with the buying and selling of credit, reproval was never far away – hence, for example, the repeated

prohibition of emergent deposit-banking practices in the fifteenth-century Low Countries.³⁰ There, as James Murray has recently demonstrated, “the profession of banking” continued to be seen “as morally ambiguous at best, and as evil and corrupting at worst,” until well into the sixteenth century.³¹ For the bankers of such worlds, it would be fair to say, the endowment of “divinity” would still have seemed a very distant prospect indeed.

Deposit Banking and Wealth Destruction

In this section and the remainder of the chapter, I move on to discuss much more directly representations of banking, and of bankers, than of the processes of lending money at interest that were to become, of course, a central component of the modern banking system. To be sure, in the early years of the emergence of deposit banking in England in the late-seventeenth century, and for much of the eighteenth century, representations of banking remained closely tethered to – and were often indistinguishable from – discourses on such varied financial matters as usury, money, debt, and financial speculation (the last of these attaining a much higher public profile in the years following the inflation and bursting, in 1720, of the South Sea Bubble). Influential mid-seventeenth-century tracts such as David Hume’s “Banks and Paper-Money” (1752) and the 5th Lord Elibank’s “Essay on Paper-Money and Banking” (1755), both of which we shall consider below, were emblematic of this enduring coupling. And in this sense, it is clearly imprecise to speak of representations of banking as if a discrete, separable discourse existed as such. Yet during this period, significantly, what was said and written about banking *did* come to be increasingly detached from commentary on other financial issues. Nowhere, perhaps, is this clearer than in Charles Dickens, from whose “assaults on financial speculation” in novels such as *Little Dorrit* (1855–1857) “banking and the Bank of England are clearly exempt.”³²

Dickens’s era is located at the very end of the period covered in both this section and the next: broadly-speaking, the mid-to-late seventeenth through nineteenth centuries. Here, I consider representations of banking in literature, philosophy and politics, whilst political economy is the explicit focus in the following section. Even this, though, is a problematic and hence somewhat unsatisfactory division. Some of the figures I consider presently under the broad umbrella term “politics” – pamphleteers such as John Briscoe, noblemen such as Patrick Murray (the 5th Lord Elibank), and mavericks, such as John Law, who ultimately elude all pigeon-holing – would possibly have seen themselves *as* economists. Moreover, the two political philosophers whose work I cite here, David Hume and John Locke, both wrote trenchantly on economic issues, and are recognized not only as having presaged some of the foundational arguments of Smithian political economy, but (in Hume’s case) as having explicitly influenced Smith himself.

It is also particularly striking, in my view, how central money in general, and money-related matters such as banking in particular, were to the various literary genres of the age.³³ It took until deep into the nineteenth century for literary writing

and political-economic writing to become clearly distinguishable from one another in terms either of their style or, more pertinently, of the forms of “value” they sought to mediate for their audiences.³⁴ Indeed, it is no coincidence that historians often feel compelled to reach for putatively *literary* texts in order to recompose the factual particulars of seventeenth and even eighteenth-century financial worlds: many of the literary “greats” had an impressive, almost uncanny, grasp of the workings of contemporary financial instruments, institutions, and markets. As Frank Melton has noted, for example, Daniel Defoe’s *Roxana* (1724) “comes closer than any other contemporary description to an accurate perception of the scrivener’s business.”³⁵

Melton’s book on the origins of fractional-reserve deposit banking in late-seventeenth century England offers, on my reading, the best available discussion of how this system gradually emerged from out of a disparate set of existing, “quasi-banking” activities.³⁶ A headline familiarity with this narrative, and with the nature of those pre-existing activities, will stand us in good stead for what follows, so I will rehearse it briefly here. In Melton’s telling, there were two primary institutional antecedents in England to modern banks proper: scriveners (or loan brokers) and money-lenders. While there were certain similarities between the two, and both sets of activities were regulated by the terms of seventeenth-century usury laws (usury, of course, by this stage having taken on its “newer” meaning pertaining to interest rate ceilings rather than the charging of interest per se), there were nonetheless key differences of both business model and means of income generation. Scriveners received money from their clients and placed it out on loan in those clients’ names; for doing so, they received purely a brokerage fee set at 0.25% of the value of the loan. Lenders, by contrast, placed out at interest their *own* capital, and “were entitled to the maximum legal rate of interest” – an activity that, Melton says, was “far more profitable” than simple money broking.³⁷

Deposit banking, in turn, effectively developed in the late seventeenth century through a merging of these two existing activities. Key figures such as Sir Robert Clayton – the main protagonist in Melton’s book – realized that the usury laws contained manifest loopholes, most especially the patent inability to stop scriveners from acting *as* money-lenders *with depositors’ capital*. “In the time before their [broking] clients recalled their deposits,” writes Melton, “these financiers were free to speculate with their capital.” In short, they began to loan *others’* money in their *own* name, and at a greater rate of interest than that paid to depositors. Here, again, is Melton:

In one instance a banker might act as a loan-broker for his clients in an outward and honest way, putting out a loan on a portion of the deposit. In another instance – the private role of the banker in lending capital in his own name – he surreptitiously expropriated another part of the same deposit.³⁸

What, then, did contemporaries, and those who witnessed the proliferation of such practices in the two centuries following these early developments, make of this newfangled “banking” business? Perhaps the most important observation we can

make to begin with is that the long-held suspicion of and negativity towards the still-fundamental practice of lending money at interest remained. Only, now, it was redoubled, by virtue precisely of banks' very *modus operandi*: the highly-visible opening up and maintenance of an interest rate *differential* between their borrowing and lending activities. Thus, towards the end of the period under consideration here, the tenor of most political, philosophical, and literary commentary on banks' perceived role and contribution is remarkably consistent not only with that characterizing the commentary which emerged in the *early* years of deposit banking, but also with that familiar from the centuries-long critique of pre-"banking" usury which was summarized above. Whatever conceptual boundaries were assembled and invoked to distinguish positive from negative, banks still typically found themselves placed on the "wrong" side. Hence even nineteenth-century apologists such as George Warde Norman – a timber merchant and, more importantly, a director of the Bank of England from 1821 to 1872 – were forced to acknowledge that banks still fought a constant battle of minds against "the opprobrium cast upon them."³⁹

Yet, more supportive voices did, indubitably, emerge; and not only among obvious constituencies such as Norman and fellow banking practitioners. Dickens, I have intimated, was one such, although his conciliatory gestures towards bankers were generally drowned out amidst the cacophony of his generic offensives against greed and speculation. There *was*, nevertheless, something of a shift in representations of money and banking within sections of the Anglophone literary establishment during the period with which we are concerned. A set of more accommodating, accepting and even – on occasion – affirmatory attitudes crystallized. Patrick Brantlinger traces this shift to "the waning of romanticism and the rise of realism"; and certainly there is a healthy dose of the latter in the nineteenth-century Irish essayist William Lecky's arguments in favor of credit, which postulated that "nothing can appear more simple than the position that interest occupies in pecuniary arrangements. We know that, in a society in which great works of industry or public utility are carried on, immense sums will necessarily be borrowed at interest, and that such transactions are usually advantageous both to the lender and the borrower." Echoing, Brantlinger notes, comparable, earlier reflections by the poet-philosopher Samuel Coleridge and the poet-politician Thomas Macaulay, Lecky's realism reads as the very antithesis of Aristotle's critique of money's affectations. Thus, if credit, for Lecky, is explicitly not "unnatural," neither is it immoral. "This remarkable agency," Lecky opined, "has long proved one of the great moralising influences of society."⁴⁰

For those who subscribed to this "naturalization" of credit, it became of course increasingly difficult to oppugn the bankers who specialized in the circulation of that credit. This more positive outlook on the contributions of banking that I am keen to foreground here began to materialize in the eighteenth century, and then gathered pace in the nineteenth. To be sure, the still-marginal community of banking advocates shrunk to the point of almost disappearing entirely in the wake of each successive banking crisis, such as those of 1772, 1797–1798, 1825, 1836–1837, 1847, and 1857. Even in the midst of such challenging circumstances, however, a discursive and political space was newly opening up for criticism to be

directed *elsewhere*. Hence the ability of Bank of England director Norman, in the “fallout” year that was 1838 – and in a tactic that will be familiar not just to historians of the stock market crash of 1929, but to all contemporary observers of the types of responses that our most recent financial crisis has elicited from figures in authority – “to blame the Legislature, which has forborne to prescribe or enforce any particular line of action,” rather than private bankers for seeking to obtain “the largest possible profit.”⁴¹

Where commentators in political, philosophical, and literary circles were now making more positive noises about the contribution made by banks, however, such affirmations almost never alluded to something called, or even bearing close resemblance to, economic “productiveness.” The deemed benefits of the banking system lay, it was claimed, elsewhere. As early as 1705, the infamous Scotsman John Law (gambler, convicted killer and prison escapee, but later Controller General of Finances for France, and then chief architect of the so-called Mississippi Bubble), claiming that the “certain good [the banking system] does, will more than balance the hazard,” pointed specifically to “conveniences, [such] as quicker and easier payments.” Born into a banking family, Law nonetheless scotched the notion of more fundamental contributions: “the nation had no benefit by the addition the bank makes to the money; nor the people by being supplied with money when otherwise they could not, and at less interest.”⁴² Others, writing later and thus at a more mature stage of development of the banking system, were slightly more generous. An influential essay of 1758, officially anonymous but believed to be the work of the Reverend Robert Wallace, an eminent figure in the intellectual life of seventeenth-century Edinburgh, posited banks as critical *enablers* of the wider economy:

By giving credit, [banks] furnish men of substance with the means of giving greater employment to the industrious, and enable merchants to carry on a more extensive trade. The more notes the Banks can circulate in this way, the more will industry and trade be promoted.⁴³

But there was still no suggestion in such supportive tracts that banks were *themselves* directly productive economic agents.

Within the English literature, the only exception to this rule I have come across is in another anonymous essay, this time published in 1802. The author is evidently a strident champion of banks, arguing that “the multiplication of banking companies, so far from being an evil, is itself a good.” Some of his (or perhaps, her) arguments closely parallel those made elsewhere: as in the aforementioned text, it is claimed that banking *stimulates* “trade, commerce, manufactures and agriculture” and thus it “must be considered as a mine to the kingdom and the bankers as the workers of this mine for the public good”; there is something, too, of Lecky’s (later) “moralising influences” in the suggestion that a banking system “increases the security of the public, by obliging all of them to be very circumspect in their conduct, and not extend their issues beyond a due proportion of their cash.” Where the author materially departs from other proponents is in the

advancement of a much bolder hypothesis as to banks' economic contribution. "The operations of banking," it is bluntly stated, "are creative of wealth."⁴⁴

Yet we need to be clear that in making this assertion the author was an apparently solitary voice, and was demonstrably swimming against powerful contemporary currents. James McCulloch, the editor of the important 1857 collection of essays on "paper currency and banking" in which this piece appeared – and who, as a leading economist and editor of the 1828 edition of Smith's *Wealth of Nations*, was very much *au fait* with prevailing political-economic theories on such matters – clearly thought it made some interesting points about turn-of-the-century banks; but he signaled to readers that it gave "rather too favourable a view of these establishments."⁴⁵ Moreover, the author himself had intimated that the piece constituted political polemic, or lobbying document, as much as academic treatise, written as it was to "enhance [banks'] value in a political point of view." And while our task here is admittedly not to judge such commentaries on the role of banks, but rather to provide an overview of their contents, it would I think be remiss not to observe that this author's brief explanation of *how* banking created value – "for wherever a bank can flourish, it will convert the product of industry into money" – is not one that would have inspired confidence among contemporaries, economists or otherwise.⁴⁶

Meanwhile, if allusions to productiveness were thin on the ground in positive eighteenth- and even nineteenth-century accounts of the banking system, the (greater number of) critical commentaries on banking that emanated from the spheres of politics, philosophy, and literature *were* now beginning to deploy a variant of the productive/unproductive conceptualization which, as we will see below, was simultaneously being more formally developed by political economists. But in many respects writers in these spheres, perhaps more given to hyperbole and rhetorical flourish, went even further. Banks, they suggested, were not merely "unproductive" of wealth; they were *destructive* thereof, both in absolute terms and relative to those sectors of the economy that were, by contrast, considered productive. A vigorous, early and influential version of this argument was set out by the Enlightenment philosopher Locke in 1692, in the period when English deposit banking was experiencing its first phase of significant growth. A consideration nominally of "the consequences of a law, to reduce interest to four per cent," and one in which Locke explicitly discusses "brokers" but *includes* within this category "bankers and scriveners" (sitting these two alongside "other such expert brokers"), it bears quoting at length:

But however these measures may be mistaken, this is evident, that the multiplying of brokers hinders the trade of any country, by making the circuit, which the money goes, larger, and in that circuit more stops, so that the returns must necessarily be slower and scantier, to the prejudice of trade: Besides that, they eat up too great a share of the gains of trade, by that means starving the labourer, and impoverishing the landholder, whose interest is chiefly to be taken care of, it being a settled unmoveable concernment in the Commonwealth.⁴⁷

Such a downbeat assessment of banks' role in the economy rapidly became the consensus view among England's educated, literary classes. Here, for example, just two years later, is the prolific pamphleteer John Briscoe, making his case *against* banks by arguing *for* those economic agents considered productive: "Trade therefore being the only medium whereby riches can be conveyed to us, we ought to exert the utmost of our abilities to encourage it, and to take care that nothing be done which may prove injurious, much less destructive to it."⁴⁸ Briscoe and his fellow critics held *any* expansion of the banking system as being likely to fall squarely within this latter, destructive category. And in 1695, the year following the appearance of Briscoe's pamphlet, an anonymously-authored piece published and distributed in London spelled things out in even starker terms: since banks were clearly not generating wealth, they must, by definition, be extracting it in the manner of leeches from the rest of the national economy:

[One] part of the nation preys upon t'other; the mighty gains that have arisen to [banks], since their establishment, being no less than twenty percent must be a loss somewhere, for 'tis all within our selves; and though banks may very well be compared to ravenous birds, yet in this they exceed them, the vultures themselves not preying upon each other.⁴⁹

Until the second half of the eighteenth century, when there began to materialize in the public sphere a more critical mass of banking patrons, very few voices dissented from this overtly negative position. Hence, around mid-century, the consensus remained that of the critics, and was now articulated most forcefully by the likes of Hume and Patrick Murray (to whose respective claims, it is worth noting, the contrary 1758 essay attributed to Reverend Wallace and cited above represented a direct response). For Hume (1752), the endeavour "artificially to increase" credit monies, which was what he saw as private banks' doing, "can never be the interest of any trading nation."⁵⁰ Murray, in turn, extended this argument, stating that bankers' "pursuits after gain" were not only "inconsistent with" but "destructive of all trade, industry, and manufactures."⁵¹

One of the most interesting and important features of this incipient *economic* critique of banking that emerged in England from the late seventeenth century (and thus prior to the birth of political economy proper), is that it remained in most cases a thoroughly *moral* discourse as well. The moral and economic arguments were not only entwined, but were often barely distinguishable from one another. Vivid examples of such hybrid critique can be found in what Colin Nicholson has described as Alexander Pope's attacks on "wealth variously generated by fraud and by usury," not least in the "Epistle to Bathurst" (1733).⁵² Similarly, Jonathan Swift's "Run upon the Bankers" (1720) included this memorable line: "For in that universal call, Few bankers will to heaven be mounters." But perhaps the two most arresting and influential of mixed moral-economic indictments of banking from this period are found in an anonymous – but still widely cited – early tract on "The Mystery of the New Fashioned Goldsmiths or Bankers" (1676) and in a 1701 essay by Daniel Defoe. The former, blending the

rhetoric of natural law with that of a type of “natural economy,” railed at bankers’ “mischievous trade” and “unlawful practices and profits,” their “prodigious unlawful gain” being generated “in contempt of law and justice” through “usurious unlawful bargains, and oppressive exactions from the needy and men in straights.”⁵³ Defoe, meanwhile, spoke of bankers as “vile people” and condemned them thus:

Nay, the war they manage is carried on with worse weapons than swords and musquets; bombs may fire our towns, and troops overrun and plunder us. But these people can ruin men silently, undermine and impoverish by a sort of impenetrable artifice, like poison that works at a distance, can wheedle men to ruin themselves, and *fiddle them out of their money*, by the strange and unheard of engines of *interests, discounts, transfers, tallies, debentures, shares, projects*, and the *devil and all* of figures and hard names.⁵⁴

Only very rarely, within this broadly-based critique of the emergent deposit banking system, was normativity dispensed with altogether. Of the many from which I have extracted opinions here, the two essays that arguably came closest to offering “purely” economic assessments were – perhaps not surprisingly – those of the two great British empiricists, Locke and Hume. In all other instances, the economic remained heavily freighted with the ethical and judgmental. It took until towards the end of the eighteenth century, in Britain at least, for a “new” discursive field to crystallize, in which the study of “the economy” for the first time became the discrete object and end in itself, rather than being merely part of a wider terrain of investigation into the constitution of society.⁵⁵ Only with the materialization of this new field did it become consistently possible for the economic and ethical critiques of money and (later) banking, which had been welded together since the days of Aristotle, to subsist largely independently of one another, and for the former to shed the vernacular and mood of the latter. This new field, of course, was the professionalized discipline – and, in the vision of Smith and Ricardo if not always Malthus and Marx, the positive “science” – of political economy.

Productive and Unproductive Labor

Eighteenth- and nineteenth-century political economy represents a formative set of intellectual and social developments in the story of primarily *twentieth*-century boundary crossings that this book attempts to relate. It does so for numerous reasons that will become increasingly apparent as the story unfolds, but the main one can be foregrounded and partially fleshed out here. This is that the tradition of “classical” political economy associated with figures such as Adam Smith was responsible for the fashioning of concepts that not only came to underpin twentieth-century national accounting practices, but which remain fundamental to the way the “economic world” is popularly and politically envisioned and narrated today. The most important such concept, in the present context, is that of economic

“productiveness”: the capacity for creation, that is to say, of economic value or “wealth.” What such productiveness is; why it is important; where it derives from; and how it can be differentiated from nonproductiveness – all these questions continue to pervade contemporary debates about various different economic activities and actors (not least, of course, banking and bankers); and all effectively originated with eighteenth-century political economy. Indeed, I take, in this book, the centrality of questions of wealth, its production, and the sources thereof to be the defining feature of classical political economy.⁵⁶

The political economists whose ideas and writings came to dominate this new intellectual field in the English-speaking world proceeded to provide answers to these particular questions of wealth creation at two separate levels. The first level was that of what came to be called the “factors of production”: the inputs or resources implicated in the economic processes which *led* to wealth creation. These factors invariably included – variously categorized – such things as tools, land, machinery, buildings, and labor. At this first level, the question posed was essentially this: which factor, or factors, are responsible for the creation of value; for, in other words, *increases* in the wealth of societies or of nations? Now, there is a long and ongoing history of controversy over what the likes of Smith, Ricardo, and Marx did or did not say about these matters, but for our purposes here one particular – and unarguable – feature of their respective theorizations is pertinent. Specifically, all three subscribed, to one degree or another, to a labor theory of value, according to which human labor was deemed to be the sole or at least main source of value creation.⁵⁷ And it was this common answer to the headline question of factor productivity that opened up, for all three theorists, the second level of questioning around economic productiveness that I noted above. For if labor, generically, was the source of new (or “surplus”) value, it seemed necessary to ask whether *all* labor was so productive, or whether only *certain types* of labor generated this incremental wealth. It was in offering answers to this second question that the classical political economists developed the key concepts of *productive* and *unproductive labor*.

The bulk of this section of the chapter is thus taken up with a consideration of the various perspectives of the great political economists, from Adam Smith onwards, on productive versus unproductive labor, and on the “placement” of banking in this particular respect. (*Was* it productive, or not?) But while Smith was the first to frame the matter of wealth creation *explicitly* in terms of this dichotomy, earlier economic theorists had certainly hinted at such a distinction, and Smith’s arguments – equally certainly – were pitched in part as rejoinders to those existing theoretical assemblages. Two were critical, and both merit recognition here for what they had already contributed to the “productiveness” debate.

The first was the “mercantilist” theory that largely dominated European economic thought in the early modern period, and associated with writers such as Thomas Mun and James Steuart. Although it came in various strains, mercantilism ultimately posited that economic value was a zero-sum game between different nations. Wealth consisted primarily of precious metals, and, other than through mining thereof, could only be materially increased by running a positive

balance of trade, meaning an excess of exports – paid for in gold or silver – over imports. “Mercantilist literature,” Vaggi and Groenewegen confirm, “largely emphasized the role of exchange and circulation of commodities in the process of the creation of wealth.”⁵⁸ As such, the merchant, or goods trader, was accorded pride of place by those mercantilists who sought to calibrate relative contributions to wealth creation. Charles Davenant, writing in 1695, expressed this view most concisely, claiming that the merchant “deserves all favour as being the best, and most profitable member of the Commonwealth.”⁵⁹

But it would be wrong to suppose that mercantilism was always this crude and singular. A more subtle perspective was offered by another Englishman, Josiah Child, who, while agreeing that all incremental wealth must be derived through international trade, maintained that not only merchants were productive participants in this particular drama. Rather, “merchants, artificers, farmers of land” were considered by him “the three sorts of people who by their study and labour do principally, if not only, bring in wealth to a nation from abroad.” Moreover, and directly foreshadowing Smith’s formal theorization of the category of *unproductive* laborer, Child continued: “other kinds of people, viz. nobility, gentry, lawyers, physicians, scholars of all sorts, and shopkeepers, do only hand [wealth] from one to another at home.” Granted, Child did not explicitly include bankers in either list; but for a book first published in the 1660s, this is to be expected; and in any case, Child leaves us in little doubt as to where scribes and moneylenders, in his view of things, belonged. The “abatment of interest,” he submitted, would benefit all economic actors except for the “gripping dronish usurer”; it would, he argued, along lines very similar to those later trodden by John Locke and Briscoe and by mid-eighteenth century critics such as Hume and Murray, be “the cause of the increase of the trade and riches of any kingdom.”⁶⁰

Very different to the trade- and merchant-focused theorization of wealth creation developed by the mercantilists was the second corpus of economic theory, and the second existing perspective on economic productiveness, upon which Smith trained his critical sights: Physiocracy. For where the mercantilists identified the source of wealth creation in cross-border trade, the eighteenth-century French Physiocrats, led by François Quesnay and Anne-Robert-Jacques Turgot, located it in “nature” and the cultivation thereof. Recalling our factors of production, then, surplus value was held to be a product, ultimately, of the land; but since *realization* of this value always required the application of human labor, it was those who worked on the land that were held to be uniquely productive. “Quesnay remarked on agriculturalists as the ‘productive class’ of society and other groups as ‘sterile classes’. Turgot called farmers the ‘unique source of all wealth’.”⁶¹ And note that the “sterile classes” evoked in Quesnay’s *Tableau économique* (1759), which was later to have a profound influence on Marx, did indeed extend to encompass *all* laborers other than those engaged in agriculture, including those in France’s incipient manufacturing industries. “Industry,” it was argued, “only reshaped the products of nature from the primary sector without adding anything to their value.”⁶² It merely moved wealth around, without adding to its quantum.

As we will see, the crude theories of the mercantilists and Physiocrats as to productive versus unproductive labor – and, thus, regarding the nature and location of the “production boundary” which separated them – were substantially advanced and reshaped by, most especially, Smith and Marx, in the context of their respective labor theories of value. (And it is important to emphasize that notwithstanding their identifications of productive “classes,” neither mercantilism nor Physiocracy *were* labor theories; labor could only ever be productive in a strictly derivative sense, through serving as a catalyst of the a priori productivity of trade and nature respectively.) Before turning to those theories, however, it is vital to clear up some of the confusions that often surround their considerations of the “productive labor” issue.

Four particular – and closely related – confusions remain both common and, in my view, extremely significant. The first is the confusion of use value with *economic* value. Where the political economists sought to distinguish productive from unproductive labor, it was the latter type of value that interested them; so, it remained perfectly possible for “unproductive” laborers to generate considerable use values. The second confusion concerns the mistaken assumption that the likes of Smith and, perhaps most especially, Marx, were making normative or moral assessments. They were not. In neither author is there any conflation of “productive” with “good” and “unproductive” with “bad.”⁶³ This, in turn, reflects the fact that, thirdly, neither are they – as is often assumed to be the case – making *social* judgments: suggesting that this activity is “productive” for society, and that one “unproductive.” Today, as I discussed briefly in the introduction to this book, we often hear critics bemoaning the fact that certain banking activities are “socially unproductive.” Yet such statements beg the question: unproductive in *what* society? More often than not, there is an implicit appeal here to a social utopia that simply does not exist.⁶⁴ Smith and Marx never did this. Thus although Marx did consider the social *necessity* of various types of labor, the question was always posed in material historical context – was this labor necessary, in other words, specifically for the maintenance of the capitalist mode of production?⁶⁵ And the same was true, for both Marx and Smith, of their assessments of economic productiveness. Hence the error of the fourth misconception: namely, that the concepts of “productive labor” offered by these political economists were somehow free-floating; this type of labor *always and everywhere* being productive, and that one not. Again, this is clearly not the case. Both for Marx and, Marx credited, for Smith – “Smith here got to the very heart of the matter, hit the nail on the head” – labor was only considered productive if it produced surplus value *for capitalists*.⁶⁶ The very same types of laboring activity could therefore be productive in one economic context but not in another; it depended on the given relations of production.

It was, then, with Adam Smith’s *The Wealth of Nations*, first published in 1776, that the categories of productive and unproductive labor were formally introduced into Western political economy. Smith gives his fullest articulation of this dualism in Chapter 3 of Book II, which begins thus:

There is one sort of labour which adds to the value of the subject upon which it is bestowed: there is another which has no such effect. The former, as it produces a value, may be called productive; the latter, unproductive labour. Thus the labour of a

manufacturer adds, generally, to the value of the materials which he works upon, that of his own maintenance, and of his master's profit. The labour of a menial servant, on the contrary, adds to the value of nothing. Though the manufacturer has his wages advanced to him by his master, he, in reality, costs him no expense, the value of those wages being generally restored, together with a profit, in the improved value of the subject upon which his labour is bestowed. But the maintenance of a menial servant never is restored. A man grows rich by employing a multitude of manufacturers: he grows poor by maintaining a multitude of menial servants.⁶⁷

This excerpt is widely-cited, and for good reason: it provides an excellent synopsis of Smith's overall views on this issue. For him, the world of capitalist economic activities really could be simply bifurcated thus: into productive labors that produced economic value, and unproductive labors that shifted such value around.

But there is one key feature of Smith's argument that is not captured here: the claim that productive and unproductive labors could be distinguished from one another not only in regard to their capacity to produce surplus for capitalists, but also in terms of the *materiality of their outputs*. In short, for labor to be productive it had to involve the creation or transformation of physical goods; anything that did not – including, of course, all service activities – was, by definition, unproductive. For Smith's clearest statement of this position, we need to turn to Book IV:

[The work of menial servants] consists in services which perish generally in the very instant of their performance, and does not fix or realize itself in any vendible commodity which can replace the value of their wages and maintenance. The labour, on the contrary, of artificers, manufacturers, and merchants naturally does fix and realize itself in some such vendible commodity. It is upon this account that, in the chapter in which I treat of productive and unproductive labour, I have classed artificers, manufacturers, and merchants among the productive labourers, and menial servants among the barren or unproductive.⁶⁸

In his various enumerations of different productive and unproductive activities, Smith does not explicitly “place” banking (though he does “out,” as unproductive, lawyers and various other members of “the most respectable orders in the society”). Indeed, one of the curiosities of *The Wealth of Nations*, seen from a contemporary standpoint, is how little Smith has to say about banking, and indeed money. But with *all* services deemed unproductive of wealth, it is a given that banking, from Smith's perspective, belonged on the “negative” side of the production boundary. And where he does talk more generically about the relative contributions and costs of the banking system, in his discussions particularly of Scottish private banks, The Bank of Amsterdam, and the Bank of England, Smith makes it clear that the economic capacity of banks is a strictly circumscribed one. Hence his lauding of the “great and general utility of the banking trade”; a utility evoked most colorfully in the following passage:

The judicious operations of banking, by providing, if I may be allowed so violent a metaphor, a sort of waggon-way through the air, enable the country to convert, as it

were, a great part of its highways into good pastures, and corn fields, and thereby to increase, very considerably, the annual produce of its land and labour.⁶⁹

Banks, operating judiciously, were important facilitators of wealth creation; but they, and the bankers who worked for them, were not directly productive as such.⁷⁰

Though it took much longer than is often assumed for Smith's *Wealth* and the arguments it contained explicitly to penetrate the wider collective consciousness of British literate society, it soon came to frame and inform debate among those who *were* writing about finance and the economy for broader audiences and often with specific policy questions in mind – writers who belonged to what Poovey refers to as the “economic establishment.”⁷¹ Debate on banking represents a very good example of this rapidly percolating Smithian influence, and Smith's fellow Scot William Howison an individual case in point. Writing in 1803, Howison envisioned society in terms of two main economic classes, labeled “productive” and “consuming” respectively. Banks, meanwhile, were part of a “middle class” sandwiched between these two. Like Smith, Howison believed that under capitalism banks were “necessary to society,” being part of a middle class that was “essential to both the other two” classes. But necessity did not equate with productiveness. Far from it: as part of the middle class, banks functioned “at the expense of the other classes,” and were thus “supported by” them and constituted “a burden upon the[ir] productive and useful labour.” In so doing, banks were held to “absorb, in a great degree, the floating wealth of the country, by a species of labour unproductive to society.”⁷²

Smith's and, later, Marx's views on productive and unproductive labor have come over time to exert a significantly greater and more enduring influence in popular, political, and scholarly discourses of the economy than those of the other great political economists of the eighteenth and nineteenth centuries. But the production boundary which Smith erected also constituted a crucial infrastructure in the theorization offered by, most especially, Thomas Malthus – whose writings on such matters informed, in turn, Marx's own refinements – and we need therefore to attend to his arguments here. We can do so, however, in much less depth than accorded to either Smith or Marx.

The one important political economist, meanwhile, whose work we do *not* need to consider in this regard – but who comes much more centrally into focus in Chapter 2 – is David Ricardo. Various writers, including Marx himself, have sought to argue that the distinction between productive and unproductive labor was an important one for Ricardo.⁷³ But it is hard to see, on almost any reading of Ricardo's political-economic opus (*On the Principles of Political Economy, and Taxation*, first published in 1817), that this was actually the case. Granted, he does refer to these concepts at various points. But he refers to them *as Smith's*, and he makes no attempt critically to assess or substantively to rework them.

Malthus, however, was an altogether different fish. The question of productive and unproductive labor was, for him, pivotal. He invested even more theoretical capital in the distinction than Smith had done, placing his discussion of the subject

close to the very front of his own *Principles of Political Economy* (first published in 1820). He insisted that “some such classification of the different kinds of labor is really called for in an inquiry into the nature and causes of the wealth of nations,” for without it “a considerable degree of confusion would be introduced into the science of political economy.” Yet for all the rhetorical emphasis, Malthus ultimately came down in effective agreement with Smith, which is why we can dispense with him relatively briefly. His rather long discussion of the subject of labor productivities boils down, in essence, to a rationalization “for adopting [Smith’s] opinion,” even on such controversial matters as the materiality of “the difference between material products and those which are not matter.” Perhaps the one area in which Malthus does deepen Smith’s position is in his explanation of why, for him as for Smith, it is important to distinguish between laborers – such as bankers – who *facilitate* wealth creation, and those who create it themselves: “if we were to include under the head of productive labour, all the exertions which may contribute, however indirectly, to the production of wealth, the term would cease to have any definite and useful signification, so as to admit of being applied with advantage to an explanation of the causes of the wealth of nations.”⁷⁴

In the 1830s and 1840s, which were the two decades separating the publication of the major economic works of Malthus on the one hand and Marx on the other, the Smithian perspective on productive and unproductive labor, and thus on the productiveness of banks, continued to hold sway within the British “economic establishment.” Yes, banks played a crucial facilitative role in the economy; few now disputed this. (“The utility of banking is now become so generally known,” the financial writer William John Norfolk remarked in 1845, “that little requires to be said upon this point.”⁷⁵) Yet as William Howison had argued, utility and productiveness were not equivalent, and one did not imply the other: an argument which, as we shall see, neoclassical economics would later confront and contest head-on. Hence, during this period Smith’s conceptual architecture remained the touchstone, and influential periodicals such as the *Quarterly Review* periodically “point[ed] the attention of the public” to, in the words of the geologist-turned-political-economist George Poulett Scrope, “the vicious banking system of England, as the one main cause of the distress against which all the productive interests of the country have been mainly struggling for many years past.”⁷⁶

Which brings us, finally, to Marx. Marx considers the question of productive and unproductive labor at numerous points in numerous texts, and yet one never gets the sense that it is as important for him as it was for either Smith or, certainly, Malthus. In Volume I of *Capital*, for instance, the matter is largely relegated to an appendix. And while the pertinent chapter (Four) of *Theories of Surplus Value* is a long one, Marx’s *main* concern there is with preceding debates, not with formulating his own arguments. Not only, furthermore, are Marx’s various writings on this subject scattered; they are also, at points, rather contradictory, with differences in interpretation emerging in different places.⁷⁷ Such differences explain, in part, the emergence over the past 40 years of a vast and ongoing debate – one variously and, I think, aptly described as “tedious” (David Harvey) and “confused” (Ernest Mandel) – among contemporary Marxian scholars as to what Marx did or did not claim.⁷⁸

I have no intention or need to enter into those debates here. Instead, I will focus on the basic contours of Marx's arguments, at which level he *is*, in my view, broadly consistent throughout. His basic position, we can begin by recognizing, accords very closely with Smith's: productive labor is quite simply labor which is productive *for capital*. Michael Webber and David Rigby summarize this foundational claim nicely: "that laborer alone is productive who produces surplus value for the capitalist and who thus works for the self-expansion of capital."⁷⁹ But beyond this basic point of agreement, Marx advances a series of modifications of, and extensions to, the positions previously set out by Smith and Malthus. Three are critical.

First, Marx does away entirely with the matching up of physical goods with productive labors and "immaterial" services with unproductive labors. The Smithian fallacy that labor is productive "only if it results in ... a material product" stems, Marx argues, from the "fetishism peculiar to the capitalist mode of production from which it arises": that which consists "in regarding *economic* categories, such as being a *commodity* or *productive* labour, as qualities inherent in [their] material incarnations."⁸⁰ Thus services *can* be productive; labor is productive not because it produces things, but because it produces surplus value. The great irony of Marx's departing from Smith on this point, of course, is that when contemporary commentators castigate the historic tendency to regard service activities as unproductive, they very often identify Marx, and *not* Smith, as the culprit!⁸¹

Second, the distinction in Marx between productive and unproductive labor is intimately bound up with another conceptual distinction, in this case one that was not present in Smith: that between production and circulation. Now, just to complicate matters, Marx uses the term "circulation" in two different senses, so it is important to be clear about which one applies here. First, and perhaps most familiarly, he writes about the circulation of capital at the broadest level: capital, indeed, *as* a perpetual process of movement or circulation through different "forms" (money, production, commodities); the "capital flow" which, Harvey recently argued, we need to understand to understand capitalism.⁸² Second, Marx writes about circulation in a more restricted sense: as the specific phase in the overall circulation of capital concerned with the realization of the outputs of productive processes *as money*. And it is this second definition that is pertinent here. Circulation, Marx claims, does not generate value; and thus labor bought by capitalists focused on circulatory activities is not considered productive.⁸³ This, as we shall shortly see, is an important distinction where banking is concerned.

Third, and lastly, Marx offers a trenchant disabusal of what he regards as the existing tendency to see "productive labor" through rose-tinted spectacles. His only forebear to overcome this tendency, he claims, is Ricardo. According to Marx, Smith had intimated that to be a productive laborer was a privilege, thus investing the role with a certain "tenderness." But this tenderness, as Ricardo had seen, was nothing but an "illusion." Marx went on:

It is a misfortune to be a productive labourer. A productive labourer is a labourer who produces wealth *for another*. His existence only has meaning as such an instrument of production for the wealth of others. If therefore the same quantity of wealth for others

can be created with a smaller number of productive labourers, then the suppression of these productive labourers is in order.⁸⁴

Having delineated Marx's reformulation of the productive/unproductive dualism, therefore, it remains only to see where the activities of banking "fitted." And Marx, unlike Smith, *did* explicitly place those activities. For him, there was no doubt that they were unproductive – that they entailed a mere redistribution of surplus value that had *already* been produced, elsewhere in the economy, by productive labors. The labor of bankers was excluded from the productive sphere not because it was a service, however, but because it was perceived to be exchanged in the realm of capitalist circulation rather than production. "This work," Marx insisted, "is a cost of circulation and not value-creating labour."⁸⁵

The consignment of banking to the unproductive realm has, interestingly, been highlighted by critics as one of the most significant consequences of Marx's separation of circulation from production; and is seen as one of the main reasons why Marxian scholars continue to cling to that particular dualism. As Helen Boss writes: "What would Marxian economics lose were it to drop the production circulation dichotomy? Possibly the hardest pill to swallow would be the implied inclusion within the productive domain of financial services."⁸⁶ Be that as it may (and many Marxists would, I suspect, contest the argument that the latter would necessarily result from the former), the most important learning, in the present context, is clear: Marx saw banking as unproductive. Nowhere is this conviction more forcefully and concisely articulated than in the following, famous quotation, with which I will end this section of the chapter:

Talk about centralization! The credit system, which has its focal point in the allegedly national banks and the big money-lenders and usurers that surround them, is one enormous centralization and gives this class of parasites a fabulous power not only to decimate the industrial capitalists periodically but also to interfere in actual production in the most dangerous manner – and this crew know nothing of production and have nothing at all to do with it.⁸⁷

Dissolving the Production Boundary

What happened in the realm of economic thinking in the half-century between Marx's death in 1883 and the rapid rise to prominence in the mid- to late 1930s of the English economist John Maynard Keynes? How did the key developments of this period play out in terms of the theorization of the production of wealth? And with what implications for perspectives on the place of banks among the respective ranks of the productive and unproductive? These are the questions addressed in this final section of Chapter 1.

What happened was, in short, no less than a theoretical revolution: the "neo-classical" or "marginalist" revolution. This was a paradigmatic shift of enormous and ongoing consequences: from a (political) economy tradition focused on

macro questions of wealth generation, to an increasingly mathematized “neoclassical” economics – now cleaved *off* from new, distinct disciplines such as sociology and political science – preoccupied with interlinked questions of market exchange, pricing, and supply and demand.⁸⁸ And it was a revolution which, as we will see, had direct and profound implications not just for thinking about economic productiveness generically, but for the very notion of a “production boundary” per se. For, in the hands of its leading developers such as William S. Jevons and Alfred Marshall in England and Carl Menger and Leon Walras in continental Europe, neoclassical economics effectively sought to dispense with hard-and-fast distinctions between productive and unproductive economic processes and labors.

Yet just as the man to whom the concept of the “production boundary” is typically traced – Adam Smith – built upon and formalized existing work that already gestured in the direction he was heading, so too the neoclassicists followed signposts previously erected. Two figures were key in this respect. The first was Jeremy Bentham, best known perhaps as a social reformer and philosopher, but also a prolific writer on economic issues.⁸⁹ The concept of “utility” that underpinned his philosophy also guided his economics, including the landmark *Defence of Usury* (1787), which contained attacks on, inter alia, Smith himself.⁹⁰ Bentham’s economic ideas strongly influenced neoclassical economists of the late nineteenth century, Jevons among them.⁹¹ The second writer often thought of as a classical political economist, but whose ideas arguably sit closer to those of the neoclassicists than to those of Smith et al., was John Stuart Mill: adroitly labeled “the last of the classics and, simultaneously, the first of the moderns” by Vaggi and Groenewegen.⁹² Again, for Mill, as for Bentham, the emerging concept of *utility* was critical.

Significantly, it is in their writings on value theory, labor, and the productiveness of labor that the tensions exhibited by Bentham and Mill – hanging, as it were, between an existing classical paradigm with which they did not fully concur, and a coming neoclassical paradigm that had not yet been born – are most apparent. Let us look briefly at Mill and his *Principles of Political Economy*, first published in 1848, for an example of this. Thus, on the one hand, Mill is seen to be striving to break away from, in particular, Smith, by re-theorizing what it is that “production” produces and where it is that value lies. “Labor,” he asserts, in a direct foreshadowing of the neoclassicists, “is not creative of objects, but of utilities.” But still he could not quite bring himself to relinquish the labor theory of value, and nor therefore the classical notion of productive labor as “labor productive of wealth.” Indeed, so embedded in the classical way of thinking does Mill remain that he feels obliged to offer yet another painfully-contorted definition of productive labor – reducing it to exertions “which produce utilities embodied in material objects,” or at least to those exertions which have “an increase of material products [as their] ultimate consequence.”⁹³

Where the neoclassicists departed substantively from Mill and Bentham was to reject unreservedly the labor theory of value, thus strengthening and formalizing the equation of value with utility that those two had struggled to configure. The

utility – or “subjective preference” – theory of value that frames neoclassical economics posits that the value of a good or service is based not on the labor expended in its realization, but is simply a function of relative utility, with each individual’s desire to maximize personal utility or “welfare” driving their own preferences between alternative consumption options. In effect, traditional value theory is reversed: value is seen now to be based not on what goes in (labor), but on what comes out (market price). The reason for emphasizing this here is that it was *precisely* in effecting this reversal that the neoclassicists put paid, at least nominally, to the productive/unproductive dichotomy.

This formal rejection of a distinction between productive and unproductive labor is particularly striking in the work of Jevons. In his *Theory of Political Economy*, first published in 1871, Jevons nods to the notion of “productive labor” on just one solitary occasion; and in doing so, he summarily discards it. “I hold labour,” he says, “to be *essentially variable*, so that *its value must be determined by the value of the produce, not the value of the produce by that of the labour.*”⁹⁴ One could hardly imagine a clearer statement of the distance between the two schools, or of the redundancy of “productive labor” as an active theoretical principle under neoclassicism. The implications are spelled out by Geoffrey Pilling:

[N]ot least amongst the consequences of the victory for the ‘marginal revolution’ during the last three decades of the nineteenth century was the loss of any critical distinction between productive and unproductive labour. The triumph of a [utility] theory of value ... necessarily precluded any separation of productive from unproductive labour. Indeed, the latter term could have no meaning. Any labour embodied in a good finding a purchaser on the market was by definition productive labour. Under capitalism there is no exploitation.⁹⁵

What was the upshot of this sea-change in economic theory for commentary on the inherent “productiveness,” or otherwise, of different economic sectors and of laborers in those different sectors – including banks and bankers? In mainstream economics such commentary inevitably, and rapidly, disappeared. Joseph Schumpeter dismissed it as “meaningless,” a “dusty museum piece.”⁹⁶ Gone for good were the painstaking, Manichean enumerations of productive laborers and unproductive laborers which we find in the works of Smith, Malthus, and Marx. The Smithian productive/unproductive dichotomy which underpinned such enumerations came to be regarded as no more than “an unfortunate error from the past.” It might occasionally still “seduce the uninitiated,” but it was clearly far “too value-laden and crude for scientific discourse” – which, of course, professional economics now claimed to be.⁹⁷ In terms of scholarly discourse more broadly, therefore, it was only in fields deemed arcane, “ideological” and *non-scientific* – such as radical, and especially Marxian, political economy – that the notion of a substantive production boundary separating productive from non-productive capitalist activities lived (and lives) on; and we shall return, much later in the book, specifically to consider recent trends in the “placement” of banking and financial services by scholars within those particular fields.⁹⁸

Yet in terms of its wider purchase, it would, I think, be accurate to say that the productive/unproductive dichotomy had entered the popular lexicon to stay by the time Keynes arrived on the scene. For the entire twentieth century and, as highlighted in the introduction to this book, *palpably* in the first decade of the twenty-first, the drawing of distinctions between productive and unproductive capitalisms has been an important feature of the discourses of “journalists, politicians and voters” alike.⁹⁹ The visibility and potency of such distinctions is only heightened in times of economic recession or “crisis,” when questions of blame and of relative levels of positive contribution – of who is and is not “pulling their weight” – take on renewed salience. And while these distinctions often pertain to matters of perceived *social* rather than explicitly economic contribution, it is typically very hard to disentangle the two in terms either of intended usage (social contribution so often being deemed to be a function of economic contribution) or, assuredly, of terminological and philosophical genealogy.

It is a central claim of this book, however, that while it is possible to find examples of the productive/unproductive dichotomy being invoked across a wide range of twentieth and twenty-first century socio-economic discourses, its mobilization within one particular domain of representation has been especially – indeed, profoundly – material: the domain of national accounting. As Chapter 3 recounts, national accounting evolved from relatively modest origins rapidly to become, in the space of a few short years in the immediate post-war era, a pivotal technology of economic calculation and visualization; which is exactly what it remains today. In fact we can say, without overstating the case, that national accounting now constitutes a core calculus in both the representation and reproduction of contemporary capitalist society itself. Moreover, the “production boundary” theorized into existence by Adam Smith and the other great political economists does not just live on in the national accounting calculus; it frames, rather, its very ontology. The cumulative envisioning of banking vis-à-vis this boundary afforded by those political economists before turn-of-the-century neoclassicism moved to shut down the boundary question was, this chapter has demonstrated, categorically unproductive. As such, any substantive boundary crossing was yet to take place.

Notes

- 1 L. Haney, *History of Economic Thought: A Critical Account of the Origin and Development of the Economic Theories of the Leading Thinkers in the Leading Nations*, Macmillan, New York, 1911, p.104.
- 2 M. Weber, “Religious rejections of the world and their directions,” in *From Max Weber: Essays in Sociology* (eds. H. Gerth and C. Wright Mills, Oxford University Press, New York, 1946, 323–359); J. Habermas, *The Theory of Communicative Action, volume 1: Reason and the Rationalization of Society*, Polity Press, Cambridge, 1984.
- 3 M. Poovey, *Genres of the Credit Economy: Mediating Value in Eighteenth-Century and Nineteenth-Century Britain*, University of Chicago Press, Chicago, 2008.

- 4 R. Bogaert, "Banking in the ancient world," in R. Bogaert, H. Van der Wee and G. Kurgan-Van Hentenrijk (eds), *A History of European Banking* (Mercatorfonds, Antwerp, 1994, 13–70).
- 5 H. Van der Wee, "European banking in the Middle Ages and Early Modern Times (476– 1789)," in R. Bogaert, H. Van der Wee and G. Kurgan-Van Hentenrijk (eds), *A History of European Banking* (Mercatorfonds, Antwerp, 1994, 71–264); R. de Roover, *The Rise and Decline Of The Medici Bank, 1397–1494*, Harvard University Press, Cambridge MA, 1963, and *Money, Banking and Credit in Mediaeval Bruges*, The Mediaeval Academy of America, Cambridge MA, 1948.
- 6 De Roover, *Money, Banking and Credit*, p.3.
- 7 <http://dictionary.oed.com/cgi/entry/50189374>.
- 8 W. Ashley, *An Introduction to English Economic History and Theory, Part 1*, G.P. Putnam's Sons, New York, 1888, p.152.
- 9 T. Divine, *Interest: An Historical and Analytical Study in Economics and Modern Ethics*, Marquette University Press, Milwaukee, 1959, pp.17–18.
- 10 K. Marx, *Capital, Vol. 3*, Pelican Books, London, 1981, pp.515–516. The quotations from *Politics* are from Benjamin Jowett's translation, available here <http://classics.mit.edu/Aristotle/politics.html>.
- 11 Cf. E. Cannan, W. Ross, J. Bonar and P. Wicksteed, "Who said 'Barren Metal'?": A Symposium," *Economica*, 5, 1922, pp.105–111, and S. Meikle, *Aristotle's Economic Thought*, Oxford University Press, Oxford, 1995, pp.63–64.
- 12 J. Bentham, "Defence of usury," in *Jeremy Bentham's Economic Writings, vol. 1* (ed. W. Stark, Allen and Unwin, London, 1952), p.158.
- 13 J. Ackerman, "Interest rates and the law: A history of usury," *Arizona State Law Journal*, 61, 1981, pp.61–110, at p.69 (emphasis added).
- 14 De Roover, *Rise and Decline*, p.10.
- 15 M. Atwood, *Payback: Debt and the Shadow Side of Wealth*, Bloomsbury, London, 2008, p.97.
- 16 J. Le Goff, *Your Money or Your Life: Economy and Religion in the Middle Ages*, Zone Books, New York, 1998, p.9.
- 17 Ackerman, "Interest rates," pp.77–79.
- 18 J. Munro, "The medieval origins of the financial revolution: Usury, rentes, and negotiability," *International History Review*, 25, 2003, pp.505–562, at p.554. Note that in England the 1545 law permitting interest was repealed in 1555, before being restored by under Elizabeth I in 1571. Ibid.
- 19 Ackerman, "Interest rates," p.79.
- 20 J. Shatzmiller, *Shylock Reconsidered: Jews, Moneylending, and Medieval Society*, University of California Press, Berkeley, 1992.
- 21 I found the overviews offered by Ackerman, "Interest rates" and Munro, "Medieval origins," especially helpful here.
- 22 Ackerman, "Interest rates," p.74.
- 23 Le Goff, *Your Money or Your Life*.
- 24 "Licit rents and profits" and "mortally sinful" are from Munro, "Medieval origins," p.510; "unlawful usury" is from Le Goff, *Your Money or Your Life*, p.10.
- 25 See especially de Roover, *Rise and Decline*.
- 26 See, for instance, the essays collected together by J. Vitullo and D. Wolfthal (eds), *Money, Morality, and Culture in Late Medieval and Early Modern Europe*, Ashgate, Farnham, 2010.
- 27 N. Ferguson, *The Ascent of Money: A Financial History of the World*, Penguin, London, 2008, p.47.

- 28 De Roover, *Rise and Decline*, p.11.
- 29 Ibid, p.12.
- 30 Munro, "Medieval origins," p.548.
- 31 J. Murray, "The Devil's evangelists? Moneychangers in Flemish urban society," in Vitullo and Wolfthal (eds), *Money, Morality, and Culture* (53–67), p.53.
- 32 P. Brantlinger, *Fictions of State: Culture and Credit in Britain*, Cornell University Press, Ithaca, 1996, p.159.
- 33 See especially C. Nicholson, *Writing and the Rise of Finance: Capital Satires of the Early Eighteenth Century*, Cambridge University Press, Cambridge, 2004.
- 34 Poovey, *Genres*.
- 35 F. Melton, *Sir Robert Clayton and the Origins of English Deposit Banking, 1658–1685*, Cambridge University Press, Cambridge, 1986, p.8. As we will see shortly, scribe-ners, as understood here by Melton, were eighteenth-century English loan-brokers.
- 36 Ibid. But see also the classic, 1929 account by R. D. Richards, *The Early History of Banking in England*, P. S. King & Son, London.
- 37 Melton, *Sir Robert Clayton*, p.38.
- 38 Ibid, pp.18, 39. Interestingly, and not immaterially, the key distinction that the usury laws drew – but could not ultimately police – between bankers' *own funds* and *deposited funds* is one that, as we will see much later, is today also central to (but equally problematic for) the treatment of banks and their various revenue streams in national accounts.
- 39 G. Norman, "Errors with respect to currency and banking," in F. Capie (ed), *History of Banking, vol. I: Money* (Pickering & Chatto, London, 1993, 265–369), p.346.
- 40 Brantlinger, *Fictions*, 136–144; the quotation is from p.139. W. Lecky, *History of the Rise and Influence of the Spirit of Rationalism in Europe, vol.II*, Appleton, New York, 1890, pp.241, 331.
- 41 Norman, "Errors," p.347.
- 42 J. Law, "Money and trade considered," in Capie (ed), *History of Banking, vol. I* (97–121). The quotations are from pp.99–100, 103. See also R. Murray, "A proposal for a national bank," in F. Capie (ed), *History of Banking, vol. III: Financial Revolution* (Pickering & Chatto, London, 1993, 19–28), for a similar example – from the same turn-of-the-century era – of the championing of the "great conveniences attending banks" (p.22).
- 43 Anon, "Essay of banks and of paper credit," in J. McCulloch (ed), *Classical Writings on Economics, vol. 3* (Pickering & Chatto, London, 1995, 75–91), p.79. The identification of Wallace as the most likely author is provided by McCulloch, "Preface," in his (ed), *Classical Writings on Economics, vol. 3*, p.x.
- 44 Anon, "The utility of country banks considered," in McCulloch (ed), *Classical Writings on Economics, vol. 3* (99–135). Quotations from pp.109–110, 119, 128. Around the same time, a similar argument emerged from a most unlikely French source: the socialist Henri de Saint-Simon (1760–1825), whose ideas would later have a considerable impact on the likes of Marx and John Stuart Mill. Saint-Simon, as Eric Hobsbawm, *How to Change the World: Tales of Marx and Marxism*, Little Brown, London, 2011, p.28, has recently remarked, "notably" included bankers amongst the ranks of those he saw as "productive entrepreneurs."
- 45 McCulloch, "Preface," p.x.
- 46 Anon, "The utility of country banks considered," pp.119–120.
- 47 J. Locke, "Some considerations of the consequences of the lowering of interest and the raising the value of money," in *The Works of John Locke, vol. IV*, 12th edition (Rivington, London, 1824, 1–116), p.28.

- 48 J. Briscoe, "A discourse of the late funds of the Million-Act, Lottery-Act, and Bank of England," in Capie (ed), *History of Banking, vol. I* (9–68), p.17.
- 49 Anon, "Angliae tutamen, or, The safety of England. Being an account of the banks, lotteries, & c tending to the destruction of trade and commerce," in Capie (ed), *History of Banking, vol. III* (105–140), p.111.
- 50 D. Hume, "Banks and paper-money," in Capie (ed), *History of Banking, vol. I* (203–210), p.205.
- 51 P. Murray, "Essay on paper-Money and Banking," in Capie (ed), *History of Banking, vol. I* (211–220), pp.214, 218.
- 52 Nicholson, *Writing*, p.143. See also H. Erskine-Hill, "Pope and the financial revolution," in P. Dixon (ed), *Writers and Their Backgrounds: Alexander Pope* (G. Bell & Sons, London, 1972, 200–229).
- 53 Anon, "The mystery of the new fashioned goldsmiths," in Capie (ed), *History of Banking, vol. I* (1–8), pp.4–7.
- 54 D. Defoe, "The villainy of stock-jobbers detected," in Capie (ed), *History of Banking, vol. I* (69–96), pp.91–92; original emphasis. Patrick Murray's later critique can be slotted into broadly the same ethico-economic register, castigating as it did "the pernicious practices of bankers" – practices he envisioned as "rapine and violence" that were "swallow[ing] up" the "industry and frugality" associated in England with "agriculture, trade and manufactures." So, too, can the powerful critique presented a century later by the Chartist pamphleteer R J Richardson: "The curse of paper money and banking new blasts the constitution of society, and its attendant curse, the practice of usury, has not only been productive of an incalculable deal of mischief, but it still fosters the evils it has engendered, and holds the whole nation in a state of subjugation." See, respectively, Murray, "Essay," pp.214, 217; R. Richardson, "Exposure of the banking and funding system," in M. Poovey (ed), *The Financial System in Nineteenth-Century Britain* (Oxford University Press, New York, 2003, 238–242), pp.238–239.
- 55 A development brilliantly analyzed by Michel Foucault in *The Order of Things*, Tavistock, London, 1970, and Susan Buck-Morss in "Envisioning capital: political economy on display," *Critical Inquiry*, 21, 1995, pp.434–467.
- 56 It is for this reason that I do not discuss in this section certain important eighteenth- and nineteenth-century writers on the economy who often are characterized as, to one degree or another, political economists. Perhaps the most important consequent absentees are the utilitarians, most notably Jeremy Bentham and John Stuart Mill (whose work did not, on my reading at least, privilege the question of wealth creation in the manner of those writers whose work I *do* address here). Both are, however, discussed briefly in the final section of the chapter.
- 57 There is absolutely no need here to delve into the vast debates over the similarities and differences between the value theories of the leading eighteenth- and nineteenth-century political economists. The consistent centrality of labour – and, thus, of its deemed productiveness – is the pivotal point here. As Duncan Foley writes: "Smith, Ricardo and Marx each used the labor theory of value in his own way and to his own purposes. Each emphasizes, therefore, the facet of the theory most relevant to his own vision. As a result we have recognizably different, but not inconsistent, 'labor theories of value' in these three authors." See: "Recent developments in the labor theory of value," *Review of Radical Political Economics*, 32, 2000, pp.1–39, at p.2.
- 58 G. Vaggi and P. Groenewegen, *A Concise History of Economic Thought: From Mercantilism to Monetarism*, Palgrave Macmillan, Basingstoke, 2003, p.6.

- 59 C. Davenant, *An Essay upon Ways and Means of Supplying the War*, 3rd edition, Jacob Tonson, London, 1701, p.57.
- 60 J. Child, *A New Discourse of Trade*, 5th edition, Robert and Andrew Foulis, Glasgow, 1751, pp.18–19.
- 61 R. Bleischwitz, “Rethinking productivity: why has productivity focused on labour instead of natural resources?,” *Environmental and Resource Economics*, 19, 2001, pp.23–26, at p.25.
- 62 Vaggi and Groenewegen, *Concise History*, p.61.
- 63 As John Stuart Mill confirmed: “the term unproductive does not necessarily imply any stigma; nor was ever intended to do so.” *Principles of Political Economy*, Prometheus Books, New York, 2004 [1848], p.70.
- 64 The same problem arises in certain neo-Marxian attempts to rework Marx’s notion of “productive labour.” This is perhaps most obviously true, as Michael Webber and David Rigby, *The Golden Age Illusion: Rethinking Postwar Capitalism*, Guilford Press, New York, 1996, p.111, note, of Paul Baran’s argument in *The Political Economy of Growth* that labor is only productive if it creates goods or services that would be required in a “rationally ordered society.”
- 65 Marx’s consideration of the social necessity as well as economic productivity of different categories of labor leads E. Hunt, “The categories of productive and unproductive labor in Marxist economic theory,” *Science and Society*, 43, pp.303–325, to argue that Marx maintained two different definitions of “productive labour.” I prefer the distinction between economic *productiveness* and social *necessity*.
- 66 The quote is from K. Marx, *Theories of Surplus Value*, Part 1, Progress Publishers, Moscow, 1963, p.157.
- 67 A. Smith, *The Wealth of Nations: I–III*, Penguin, London, 1982, pp.429–430.
- 68 A. Smith, *The Wealth of Nations: IV–V*, Penguin, London, 2004, p.261.
- 69 Smith, *Wealth: I–III*, p.420.
- 70 That Smith was widely regarded as having denigrated as “unproductive” *all* types of professional services was clear from the howls of indignation that the book elicited from society’s great and good – howls that Marx, for one, found highly amusing. Discussing these “polemics against Adam Smith’s distinction between productive and unproductive labour,” Marx observes that the “great mass of so-called ‘higher grade’ workers—such as state officials, military people, artists, doctors, priests, judges, lawyers, etc. ... found it not at all pleasant to be relegated *economically* to the same class as clowns and menial servants and to appear merely as people partaking in the consumption, parasites on the actual producers.” *Theories of Surplus Value*, Part 1, pp.174–175; original emphasis.
- 71 Poovey, *Genres*, p.180.
- 72 W. Howison, “An investigation into the principles and credit of the circulation paper money, or bank notes, in Great Britain,” in F. Capie (ed), *History of Banking, vol. IV: English Banking* (Pickering & Chatto, London, 1993, 131–204), pp.188–189.
- 73 Marx, *Theories of Surplus Value*, Part 1, pp.176–177; R. Chernomas, “Productive and unproductive labor and the rate of profit in Malthus, Ricardo, and Marx,” *Journal of the History of Economic Thought*, 12, 1990, pp.81–95.
- 74 T. Malthus, *Principles of Political Economy*, 2nd edition, William Pickering, London, 1836, pp.36, 45, 47.
- 75 W. Norfolk, “The general principles of banking, bills of exchange, British funds, and foreign exchanges,” in Capie (ed), *History of Banking, vol. IV* (337–362), p.349.

- 76 G. Scrope, "The rights of industry and the banking system," in Capie (ed), *History of Banking*, vol. IV (205–256), p.218.
- 77 As demonstrated and discussed by, for instance, Ernest Mandel in his "Introduction" to K. Marx, *Capital*, Vol. 2, Penguin, London, 1992, at pp.40–46.
- 78 D. Harvey, *The Limits to Capital*, University of Chicago Press, Chicago, 1982, p.105; Mandel, "Introduction," p.40.
- 79 Webber and Rigby, *Golden Age Illusion*, pp.110–111.
- 80 Marx, *Capital*, Vol. 1, Penguin, London, 1990, p.1046, original emphasis.
- 81 E.g. R. Bootle, *Money for Nothing: Real Wealth, Financial Fantasies and the Economy of the Future*, Nicholas Brealey Publishing, London, 2003, p.134.
- 82 D. Harvey, *The Enigma of Capital and the Crises of Capitalism*, Profile Books, London, 2010.
- 83 See especially *Capital*, Vol. 2, pp.209–211.
- 84 Marx, *Theories of Surplus Value*, Part. 1, p.225; original emphasis.
- 85 Marx, *Capital*, Vol. 3, p.432.
- 86 H. Boss, *Theories of Surplus and Transfer: Parasites and Producers in Economic Thought*, Unwin Hyman, Boston, 1989, p.103.
- 87 Marx, *Capital*, Vol. 3, pp.678–679.
- 88 See, for example, D. Milonakis and B. Fine, *From Political Economy to Economics: Method, the Social and the Historical in the Evolution of Economic Theory*, Routledge, New York, 2008.
- 89 W. Stark (ed), *Jeremy Bentham's Economic Writings*, Allen and Unwin, London, 1952.
- 90 Ackerman, "Interest rates," pp.83–85.
- 91 J. Dinwiddy, *Bentham: Selected Writings of John Dinwiddy* (ed. W Twining, Stanford University Press, Stanford, 2004), p.104.
- 92 Vaggi and Groenewegen, *Concise History*, p.xiv.
- 93 Mill, *Principles of Political Economy*, pp.71, 74. John Ruskin ridiculed Mill for these "inconsistencies" in his magisterial "Unto this last," in *Unto This Last and Other Writings* (Penguin, London, 1985, 155–228), pp.204–205.
- 94 W. Jevons, *The Theory of Political Economy*, 4th edition, Macmillan and Co., London, 1911, p.166; original emphasis. Another, very similar statement was provided by another of neoclassicism's architects, Alfred Marshall, who wrote in his *Principles of Economics* (9th, variorum, edition, ed. C. Guillebaud), vol. 1, Macmillan, London, 1961 (first published in 1890): "We may define labour as any exertion of mind or body undergone partly or wholly with a view to some good other than the pleasure derived directly from the work. And if we had to make a fresh start, it would be best to regard all labour as productive except that which failed to promote the aim towards which it was directed, and so produced no utility" (p.65).
- 95 G. Pilling, *The Crisis of Keynesian Economics: A Marxist View*, Taylor & Francis, London, 1986, p.109.
- 96 J. Schumpeter, *History of Economic Analysis*, Routledge, New York, 1987, pp.599, 597.
- 97 The quotations are from Boss, *Theories*, p.4.
- 98 "Coincident with demise of growth as the central question for orthodox political economy," observes W. Gramm ("Unproductive labour and unproductive consumption: historical review, contemporary relevance," *International Journal of Social Economics*, 14, pp.154–166), at p.157, "the concepts — the relationships — of unproductive labour and consumption became relegated to the new 'underworld' of institutional, sociological economics."
- 99 Boss, *Theories*, p.4.