

Origins and Limits of the Modern Idea of the Economy

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It is a paradox of contemporary political debate that arguments appealing to the logic of economics have proliferated at the same time as economists themselves have become less certain about what the economy is or how it can be measured. Governments invoke the necessity of economic restructuring and global competitiveness, while economists warn that the proportion of the economy they can reliably measure has fallen from 60 per cent in the 1950s to less than 30 per cent today--and is still falling.

The two sides of this paradox are related. Macro-economics assumes the existence of the national economy, as a more or less closed structure of measurable economic relationships. The political demand for economic restructuring reflects an historical transformation that is rendering this conception of the economy unworkable. The globalization of finance and manufacturing since the 1970s makes it increasingly difficult to portray the national economy as a self-contained structure or calculate its levels of investment, productivity, or trade. At the same time, manufacturing has been displaced by finance, information, entertainment, and other service industries, which produce forms of knowledge, experience, and imagery that economists have no adequate way of measuring.

Is the idea of "the economy" a conception that no longer fits? Does the term refer to an older kind of space, a structure which these more global, interconnected, and intangible processes are dissolving? More generally, what is the modern history of the idea of the economy? Is it a concept that can be applied universally, or is it an intellectual and political construct limited to a particular time and place?

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On November 7 1994 Business Week magazine published as its cover story an article entitled "The Real Truth About the Economy." It argued that official figures no longer accurately portray the size or growth of the economy. Structural changes and new technologies had made the statistics for inflation, production growth, employment, money supply, and trade no longer reliable. The connection between statistical representation and reality, the article claimed, "is getting more tenuous every year" (Mandel 1994, 110).

There were said to be several aspects to the problem. In manufacturing, for example, official statistics have no way of measuring the reduced cycle time and increased yields created by reorganizing factory production. "[I]n just the first half of

this year," the Chief Financial Officer of Texas Instruments was quoted as saying, "we 'created' an 'invisible factory' the size of one of our \$400 million fabs--without any new bricks and mortar" (p. 113). In other sectors it is not just the factories that are invisible. In banking, software, law, wholesale trade, and communications, the government has no reliable way of measuring what is produced. Money supply can no longer be precisely calculated, in part because no one knows how much United States currency is held abroad. The globalization of manufacturing, with assembly processes moving back and forth across national borders, makes it impossible accurately to represent imports and exports or capacity utilization. Economic forecasting is inaccurate. Each July the Federal Reserve Board publishes a forecast of the following year's Gross National Product, expressed as the range of its experts' projections. Not once since 1982 has GNP ended up within the central tendency of that range (McNees 1995, 18-19; cf. Business Week Sep 25, 1995, p.25).¹ Inaccurate forecasts compound the problem of measurement, because they become the basis for further economic decisions. "As much as ten percent of the ups and downs of industrial production is a reaction to economic statistics that are later revised" (Mandel 1994, 112). The misrepresentations become part of the economy they are misrepresenting. Business Week called for the government to spend more money gathering statistics, but it is not clear that this would solve the problem. As a former government chief statistician remarked in the Business Section

¹ The central tendency is the range without its high and low extremes.

of the New York Times (Hershey 1995, p. D3), "Conceptually is where we have the trouble."

The alarm in the business press echoes concerns raised by professional economists. Two recent presidents of the American Economic Association have made the difficulty in representing the economy the subject of their presidential address. In 1994, asking why "economists have not been very successful in explaining what has happened to the economy during the last two decades," Zvi Griliches argued that whereas in the 1950s about half the overall economy was measurable, by 1990 the proportion had fallen to below one-third. In most sectors of the economy--construction, trade, services, and government and other public institutions--there are "no real output measures." Even in the "measurable" sectors, the accelerating rate of product development and the spread of price discounting, none of which is properly captured in statistics, makes picturing the size and growth of the economy less and less reliable (Griliches 1994, 13). A few years earlier Robert Eisner (1989, 2) argued in his presidential address that measures of the major macro-economic variables--income, output, employment, prices, productivity, consumption, savings, investment, capital formation, wealth, debt, and deficits--are so unreliable that he and his fellow economists "have literally not known what we are talking about."

Despite the crisis of representation that these kinds of remarks seem to acknowledge, mainstream economists and the

business press that echoes them see no need to abandon the conventional idea of the economy. They simply hope to find more sophisticated and accurate techniques for representing it. This commitment appears to distinguish them from an older and more radical critique developed on the fringes of and outside professional economics, which calls for the conventional idea of the economy to be abandoned. This kind of criticism has been driven by the new social movements that emerged in the late 1960s and 1970s, particularly the environmental movement (Daly 1991, Daly and Cobb 1994, Group of Green Economists 1992, Henderson 1978)--but there have also been important feminist, developmentalist, minority, working-class, and other critiques of how mainstream economists portray the economy (Haq 1995, Schwab 1994, Waring 1988). The general criticism made is that the economy is represented in a way that both excludes too much and misrepresents the values or costs of what it does include. The basic measure of the size and growth of a country's economy is the gross domestic product. But GDP is an estimate only of monetarized transactions: it is an attempt to measure the rate at which money changes hands. It excludes non-monetarized activities and processes, however productive, exploitative, or valuable, such as household labor or the enjoyment of leisure, and it does not distinguish between beneficial and harmful expenses. Crime, divorce, sickness, earthquakes, and environmental destruction all lead to the spending of more money, and thus the growth of GDP. The economy is not represented in a way that can account for the value of personal

health or security, or of the security and preservation of the environment.

Those who make these criticisms offer a variety of remedies. One group seeks simply to change the way GDP is calculated (renaming it the GPI, or Genuine Progress Indicator), to make it more representative of "the economy that people experience" (Cobb et al 1995, 70). The GPI estimates a monetary value for non-monetarized activities, such as domestic labor, the loss of leisure, and the depletion of natural resources, and counts as costs rather than growth the money spent as a result of crime, illness, and environmental destruction. A similar proposal calls for replacing GDP with the ISEW, or Index of Sustainable Economic Welfare (Daly and Cobb 1994, 443-507). The feminist economist Marilyn Waring suggests picturing the economy as three concentric circles, the innermost one called the "free economy" (household labor and other unpaid work), the middle one the "protected economy" (government services and protected domestic enterprises), and the outermost the "fettered economy" (enterprises tied into the global market). Herman Daly (1991, xiii) and his colleagues propose seeing the economy as a segment of something larger. Standard economics, he says, represents the economy as "an isolated system in which exchange value circulates between firms and households. Nothing enters from the environment, nothing exits to the environment." He argues that we should substitute a view in which "the economy is an open subsystem of a finite and non-growing eco-system (the

environment)."

Curiously, despite the often radical nature of their criticism of conventional economics, all these alternative visions share something fundamental in common with the view of mainstream economists. Whether proposing to expand the definition of the economy to include elements that conventional economics leaves out, or to represent it as a segment of something larger, the alternative images all retain the idea of "the economy"--that is, of a distinct object (whether open or closed) whose elements form a dynamic system that is separable from other systems and can be identified and measured in their entirety. Mainstream economists and their critics agree that there really is such a thing as the economy and that it can be accurately represented.

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This agreement results in a surprising silence. Despite the sense, both within the economics profession and outside, that it is difficult to know how to represent the economy, there has been almost no critical investigation of the idea of "the economy" or its history. Economists have been analyzing their own professional discourse extensively (McCloskey, 1985, 1990; Weintraub 1991, Mirowski 1988, Khan), but have not examined the idea of the economy itself. Those outside the profession who

have examined the history of economic discourse more critically have assumed that the modern idea of the economy emerged in the late eighteenth or early nineteenth century, but have cited no sources that show this (Buck-Morss 1995, Foucault 1991, Tribe).

In the sense we now take for granted, referring to the self-contained structure or totality of relations of production, distribution and consumption of goods and services within a given geographical space, the idea of "the economy" dates only from the second quarter twentieth century. Both in academic discourse and in popular expression ("the Egyptian economy," "the economy is a mess,") this meaning of the term emerged during the years around World War II. Adam Smith, dubiously claimed as the father of modern economics, never once refers in The Wealth of Nations to a structure or whole of this sort. When he uses the term economy, the word carries the older meaning of frugality or the prudent use of resources:

Capital has been silently and gradually accumulated by the private frugality and good conduct of individuals. ...It is the highest impertinence and presumption...in kings and ministers, to pretend to watch over the oeconomy of private people (Smith 1950 [1776], 327-8)

Eighteenth-century political economy was not concerned with the structure of production or exchange within an economy, but with the proper husbanding and circulation of goods within the state, imagined as the household of the monarch (Tribe 1978, 80-109). The political economists of the nineteenth century broke with this image of the household, but did not replace it with the modern idea of the economy. Ricardo's famous 1815 "Essay on

Profits," for example, the founding text of nineteenth-century political economy, presents not a model of an economy but a simplified narrative of the cycle of corn production, beginning with a population "first settling...a country rich in fertile land," and examining the relationship between increasing levels of population, corn production, and profit, until "the natural limit to population" is reached (Ricardo [1815] 1951, 10-15). The dynamic of the analysis is not that of an "economy" but of population growth and the corn cycle; its spatial image is not the space of the economy but the geography of land settlement and the difference between countryside and town. These, rather than an abstract economy, construct the specific time and space of the analysis (cf Tribe 1978).

As recently as the 1920s, the second edition of Palgrave's Dictionary of Political Economy contained no separate entry for or definition of the term economy. It used the word only to mean "the principle of seeking to attain, or the method of attaining, a desired end with the least possible expenditure of means" (Palgrave 1925-26, 678). In 1932, Lionel Robbins' classic Essay on the Nature and Significance of Economic Science described "The Subject-Matter of Economics" (Chapter One) as "human behaviour conceived as a relationship between ends and means" (p.21) and never employed the term economy in its broad contemporary sense.

It might be argued that the absence of the word economy before

the 1930s is not itself significant. Earlier economic theorists analyzed the production and circulation of wealth as distinct and interrelated processes and as the subject matter of a separate science, even if they did not call these processes the economy. It is indeed easy to assume that earlier theorists were talking about the same object, even though they never named it, and to construct a history of economic thought that goes back to Adam Smith, or even Aristotle, acquiring its unity and continuity from this entity that somehow remained invisible to all those who wrote about it. But such a history can never tell us what was at stake in the invention of the idea of the economy between the 1930s and the 1950s, or even notice that the invention occurred. Nor will it see this invention as a political process, one that gave twentieth-century politics its distinctive character.

The emergence of the idea of the economy in the interwar period could be traced in a number of different disciplines. In Anthropology, Malinowski demonstrated in the 1920s that moneyless communities of the Trobriand Islands could be described as having an "economy." Malinowski's work in turn enabled the historian Karl Polanyi to distinguish between societies in which "the economy" was embedded in other social relations and those in which it emerged as a separate sphere, and to describe this emergence in nineteenth-century England. In projecting the term "economy" onto a period a century before the word was used in this sense, Polanyi can be read as an important

figure in the creation of the concept of the economy in the 1940s. In sociology one could trace the influence of Talcott Parsons, and show in particular how Parsons mistranslated critical passages from Weber's Economy and Society. Parsons' translation defined the term "economy" not as Weber glossed it ("autocephalous economic action," meaning action "concerned with the satisfaction of a desire for 'utilities'"), but as "an autocephalous system of economic action" (Weber 1972, 31; Parsons 1947, 158, emphasis added).² Adding the word "system" made it seem that Weber was talking about the new conception of the economy as a self-contained structure or totality.

A full discussion of these developments across different academic disciplines lies outside the scope of this paper. Here I will concentrate only on the discipline of economics itself. To trace the appearance of the idea that the economy exists as a general structure of economic relations the obvious place to begin would be in 1936 with the publication of John Maynard Keynes' General Theory of Employment, Interest and Money. Although tending to employ phrases like "economic society" or "the economic system as a whole" where today one would simply say the economy, the General Theory conventionally marks the origin of what would come to be called macro-economics. The significance of Keynes is easy to exaggerate, however. Keynes

² The mistranslation was only partially repaired when Roth and Wittich (1968, 63) incorporated Parsons' translation into the complete English edition of conomy and Society. (In the phrase "An 'economy' is autocephalous economic action," the word "An" is not found in the original German--and makes no sense in English.)

himself was critical of what was arguably a more important development of the 1930s: the birth of econometrics, or the attempt to create a mathematical representation of the entire economic process as a self-contained and dynamic mechanism.

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To understand the shift that occurred in the 1930s it will help to look back briefly at the period since the 1870s, when professional, academic economics emerged by making a break with the tradition of political economy from Smith and Ricardo to Marx. The break in the 1870s is usually described in terms of the birth of marginal utility theory--the analysis of economic phenomena as the interaction of buyers and sellers seeking to maximize their individual values or utilities. But the new field marked out by the idea of marginal utility was also not the space we know today as the economy. To understand the field of marginal utility, and its transformation in the 1930s, one must understand its relation not to political economy but to physics.

Physics emerged as a coherent scientific discipline during the second half of the nineteenth century, unified by the new idea of energy. The diversity of what had seemed to be different types of matter associated with heat, light, mechanical force and electricity, each appearing to involve different forces of attraction and repulsion, was replaced by the singular concept

of energy, imagined as the unique, protean, yet basically unknowable force at work in all physical processes.

As Philip Mirowski (1988) has shown, scientific economics was created in the 1870s by translating the new language and imagery of physics into a vocabulary and set of metaphors for imagining the field of economic processes. The terminology of the new discipline--words like equilibrium, stability, elasticity, inflation, expansion, contraction, distribution, movement, friction--was borrowed intact from physics. And the central concept of economics, individual utility, was modelled directly on the new idea of energy. It represented the same unique, protean, unknowable force, giving the elements of the economic field their animation.

Economics also borrowed from physics its models of explanation, in particular the prescription to express causal relations in mathematical form. The fact that the central concept of both disciplines was conceived as an invisible and unknowable force encouraged this tendency. This in turn encouraged a predisposition to substitute mathematical description and quantitative measurement for an analysis of the actual nature of the phenomena being described, Mirowski argues, and to accept such description as a form of proof (Mirowski 1988, 17).

[The borrowing from physics created an unresolved problem. The

law of conservation of energy in physics, the principle that made it possible to constitute diverse phenomena as a single field, had no parallel in economics. This created a fundamental contradiction in the mathematics of the new science. When economists were reminded of this contradiction by mathematicians, they argued that such details were insignificant--while continuing to berate non-mathematical economists for their lack of scientific precision (Mirowski 1988, chapter 2).]

The field of these individual energies was not conceived as "the economy." Made up of forces, conceived as individual utilities, that were assumed to be in balance, the site of this mechanical equilibrium was imagined as "the market." This term no longer referred to the social marketplace of Ricardo or Marx, conceptualized in relation to the city, to agriculture, and to the factory, but to an abstract space, constructed mathematically as the plane upon which numerical utilities could meet and balance one another. [Quote Walras.] As a neutral, planar surface, the market of neo-classical economics had no depth, no dynamic structure, no forces of its own, no "macro-" dimension that could be described apart from the individual utilities that moved across it. It was an inert, unmoving space.

The influence of mechanics led to some elaborate efforts to construct realistic representations of the market mechanism. Irving Fisher's 1892 doctoral dissertation, which Paul Samuelson

called "the best of all doctoral dissertations in economics" (Samuelson 1950, 254, cited Mirowski 1988, 31), developed a mechanical model of an economic market consisting of water tank, over which was suspended a system of pipes, rods, levers, cisterns, sliding pivots, and stoppers. The flow of water through this system represented the operation of the principle of utility. In 1892 he built a working model of this contraption which he used in his classes at Yale for years, until it wore out, and in 1925 he replaced it with an improved model. Fisher argued that the model provided not just a picture of the market but an instrument of investigation, and that the effect of complex variations in the market could be studied by altering the positions of the various stoppers, levers, and pivots (Fisher 1925, iii, 44).³

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The birth of the idea of the economy can be understood as the attempt to include in the picture of the economic process other forces besides the "energy" of individual utility. It was quite clear by the 1920s and 1930s (indeed long before then) that fluctuations of prices in the market were far too erratic to be explained simply by reference to changing utilities. It was necessary to theorize other kinds of energies at work,

³ Later on, students at the London School of Economics built a hydraulic "Keynesian machine," with injections and leakages of fluid, to illustrate the flow of purchasing power in an economy (Skidelsky 1992, 540-41).

subjecting what would otherwise be a stable equilibrium to random shocks. These energies would have to be conceived as "external" to the market, for the market itself was by definition composed only of individual energies. Because they were external, they would impact upon the market as a whole. These impacts would cause the market as a whole to move, setting up reverberations or oscillations that were distinct from the individual movements caused by the energy of particular utilities. The market could no longer be pictured as merely an inert, planar space, defined as the site of a static equilibrium; it would have to be somehow imagined as a dynamic system. The name that emerged for this energized totality was "the economy."

[Previous efforts to imagine the impact of external shocks affecting the market as a whole took the form of the study of "business cycles." But before the 1930s business cycle theory was a relatively minor, sometimes ridiculed, field. And it was not clear how to imagine these cycles within the framework of neo-classical economics (cf Wesley Clair Mitchell: business cycles as "synthetic product of the imagination.")]

The transformation in economic thinking was understood at the time not in terms of the birth of the idea of the economy but as a shift from a static conception of economic processes to a dynamic one. (Even to those looking back after World War II, for example Schumpeter in his History of Economic Analysis, it was

this rather than Keynesianism that appeared as the major development of the interwar period.) However many rods, levers and stoppers could be made to move in Fisher's model of the market, these represented discrete movements within what was as a whole a stationary apparatus. What if the apparatus as a whole could be thought to move? What if, as the Norwegian economist Ragnar Frisch asked, "certain exterior impulses hit the economic mechanism and thereby initiate more or less regular oscillations"? (Frisch 1933, 171). Frisch developed a complex mechanical analogy to illustrate this, consisting of a small pipe attached to a pendulum suspended beneath a bowl of water, the pipe ending in a valve whose operation depended on the direction of the pendulum's swing (Frisch 1933, 203-4).

To conceive, however, of the kinds of "external" forces that would produce a dynamic impulse affecting the entire economic machinery required two related conceptual shifts. First, a clear distinction had to be elaborated between what Frisch called "the intrinsic structure" of the mechanism and its exterior. Second, this intrinsic structure could no longer be imagined as a single market, with a limited number of buyers, sellers, and commodities. As a dynamic whole, it had now to be thought of as "the whole economic system taken in its entirety" (172). The reworking of the mechanical imagery in the 1930s to imagine the possibility of an external force creating an impulse that reverberates through and sets up oscillations within a completely closed system marks the birth of the idea of the

economy.

The first dynamic model claiming to represent an entire economy was published in 1936, the same year as Keynes' General Theory, by Tinbergen--who was later to share the first Nobel Prize in economics for this work. (Tinbergen actually trained as a physicist before taking up economics.) In 1939, working for the League of Nations, he produced the first large-scale model of the U.S. economy (Morgan 1990, 101-130).

We may start from the proposition that every change in economic life has a number of proximate causes. These proximate causes themselves have their own proximate causes which in turn are indirect "deeper" causes with respect to the first mentioned change, and so on. Thus a network of causal relations can be laid out connecting up all the successive changes occurring in an economic community (Tinbergen 1937, 8; cited Morgan 1990, 103).

As in Keynes' General Theory, phrases like "economic life" and "economic community" express the new idea of the network of relations that would come to be termed the economy.

[Keynes ridiculed the new econometric work of scholars like Tinbergen (describing its attempt to mathematicize the entire economy as "hocus"). Schumpeter came to the defense of econometrics, in the first issue of Frisch's Econometrica, on the grounds that mathematical rigor would enable economists to speak with more authority to politicians.]

Keynes himself began to formulate the idea of the economy as a

closed, interdependent system subject to "external" shocks--and manipulation--in the early 1930s, following the publication of A Treatise on Money (1930). Understanding the nature and role of money had been a central theme of his work, going back all the way to his earliest work of 1913, Indian Currency and Finance. He drew on the work on monetary theory by his predecessors at Cambridge, Marshall and Pigou, as well as theories developed by Fisher and Frisch. It was in terms of the peculiar nature of money in contemporary societies that he first articulated his decisive break with these predecessors, and it was to explain this break that he first appears to have used the term "economy" in its modern sense. Earlier theorists, he argued, had treated money as simply a neutral signifier of value, and thus saw no essential difference between a system of exchange using money and a barter system. In the earliest surviving drafts of The General Theory, which date from 1932-33, and in fragments of his Cambridge lecture notes from the same period, he discusses the differences between the "real-exchange economy" or "neutral" economy of classical economic theory, and the "money economy" of the real world of the present (Keynes 1971-89, 13:396-412, 420-21; 29:54-55; Skidelsky 1992). [cf the borrowing from Wicksell.] [Note also that model in the General Theory was not a dynamic one; and it was formulated in a way to preserve, as a special case, the neo-classical model of the market.]

What was new about the idea of the economy was not the treatment of economic processes as to some extent distinct from

other kinds of processes in society. Rather, it was the notion that these processes form a singular and self-contained totality whose "internal" mechanisms and balances were subject to "external" shocks or manipulations, such external impulses creating reverberations throughout the internal machine. And, especially for Keynes, it was the related notion that money is not simply a neutral measure of value, but a complex part of the mechanism, a part both capable of exaggerating the impact of shocks to the machinery and particularly susceptible to external manipulation.

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Of course the economy was formed as a new discursive object in the context of broader developments. Tinbergen developed his first econometric model in response to a Dutch government request for policies to combat the depression (Morgan 1990, 102). Keynesian theory was also a response to the experience of mass unemployment and depression and to the emergence of New Deal, fascist, and other general economic programs that addressed not just individual human behavior but the interaction of aggregate and structural factors such as employment, investment, and money supply. Also important was the emergence after World War I of welfare and development programs for European colonies (Keynes' first job was in the Revenue, Statistics and Commerce Department of the India Office), in response to the growing threats to colonial rule.

But to place the emergence of the economy in this larger context is not a question of supplying the discursive shift with a non-discursive origin. The larger context was itself a discursive one, for the political crises of the 1920s and 1930s were marked by the collapse of systems of monetary representation and the forms of social order and collective identity dependent upon them. The currencies of Russia, Germany, Austria, Hungary and other European countries were destroyed, mostly in less than a year. Recall Karl Polanyi's (1944, 24) account of these events:

Nations found themselves separated from their neighbors, as by a chasm, while at the same time the various strata of the population were affected in entirely different and often opposite ways. The intellectual middle class was literally pauperized; financial sharks heaped up revolting fortunes. A factor of incalculable integrating and disintegrating force had entered the scene.

As the crisis spread, Britain (in 1931) and then the United States (in 1933) were forced to abandon the gold standard. The foundation of the international financial order, the belief that bank notes had value because they represented gold, was abandoned. It was as the system of monetary representation began to fall apart and the social orders it underpinned lost their coherence that the notion of the economy as a coherent structure came into circulation.

It seems to have taken at least two decades, from the mid-1930s to the mid-1950s, for the economy to come to be understood

as a self-evident totality. Even in the early 1950s, the notion of the economy as the total economic process had to be explained, invoked with awkward phrases like "the economics of the economy." This was the expression of Edwin Nourse (1953, 15), first Chairman of the Council of Economic Advisors, a body created by the 1946 Employment Act to institutionalize the role of economic expertise within the White House. The Council had only minor influence over presidential policy making, but great influence in placing the voice of economic expertise at the center of political discourse. No other academic discipline was represented as a field of knowledge within the executive power, a position that enabled economics to situate itself in the post-war period as the true political science. Nourse's attempt to picture the economy as an integrated whole occurs in a statement laying claim to this role of scientific expertise:

Economic theorists have done a great deal of work in recent years in the area of private business in analyzing the "economics of the firm." Of no less importance is the economics of the economy, that is the total economic process... Passage of the Employment Act not only constituted a formal recognition of the integral character of the economics of the economy, but also set up a specific machinery for dealing with this problem in the spirit of science, with the best tools that economic science can provide, and with trained scientific personnel (Nourse 1953, 15-16).

There is no space here to trace the steady emergence of this idea of "total process" over two decades. Instead I will mention three aspects of the new totality: how it provided a new way for the nation-state to represent itself, a new representation of the international order, and a novel conception of politics as

growth.

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The emergent discourse of the economy represented, in the first place, a re-imagination of the nation-state. For orthodox, pre-Keynesian economics the sphere of economic behavior was the individual market. This was the abstraction in terms of which the relations between costs, utilities, and prices were to be analyzed. Keynes' General Theory replaced this abstraction, which had no geographical or political definition, with the "economic system as a whole", a system whose limits corresponded to geo-political boundaries. The system was represented in terms of a series of aggregates (production, employment, investment, and consumption) and synthetic averages (interest rate, price level, real wage, and so on), whose referent was the geographic space of the nation-state (Radice 1984, 121). This idea of the national economy was not theorized, as Radice points out, but introduced as a commonsense construct providing the boundaries within which the new averages and aggregates could be measured. Subsequently, the division of economics into the separate fields of macro- and micro-economics inscribed this commonsensical reference to the nation-state in the structure of the discipline, where it remained unnoticed. Thinking of the national economy as simply "the macro level" provided of

substitute for a theoretical analysis of its geo-political construction.

The development of macro-economics and econometrics were accompanied by the creation of a novel vocabulary and methods in statistics for estimating and representing the new national aggregates. Simon Kuznets of the National Bureau of Economic Research systematized a method for estimating the national income, which was published in 1941. Kuznets warned that "a national total facilitates the ascription of independent significance to that vague entity called the national economy" (Kuznets 1941, xxvi)--which is precisely what happened. [After the war these calculations were taken up elsewhere. In Egypt, for example, the Fouad 1st Society of Political Economics began the first efforts to compute the country's national income around 1950 (Badawi 1951, 6).] The subsequent elaboration of what came to be called the Gross National Product of each economy made it possible to represent the size, structure, and growth of this new totality. Thus the development of the economy as a discursive object between the 1930s and the 1950s provided a new, everyday political language in which the nation-state could speak of itself and imagine its existence as something natural, spatially bounded, and subject to political management.

A second aspect of the new discourse of the economy was the re-imagination of the international order. The dissolution of European empires before and after World War II disturbed the

representation of the world in terms of position in an imperial order. Here too the economy provided a new way of imagining geopolitical space. Previously it made little sense to talk of, say, the British economy, so long as Britain's economic realm was thought to include India and its other colonies. More generally, a world that was pictured as consisting outside Europe of a series of extensive but discontinuous European empires could not easily be imagined to contain a large number of separate economies, each economy coinciding with a self-contained geographical space and consisting of the totality of economic relations within that space.

The collapse of empire and the growing hegemony of the United States created a new order, consolidated first by the League of Nations and then by the U.N., the World Bank, and the International Monetary Fund, in which the world was pictured in the form of separate nation states, with each state marking the boundary of a distinct economy. Again, the new macro-economics took these imagined objects as its untheorized referents: international trade was measured in terms of aggregates (imports and exports of goods and capital) and averages (terms of trade, exchange rates) that were defined in terms of the transactions between national economies (Radice 1984, 121). The U.N. and the World Bank helped construct the new global imaginary through the publication of statistics and the proliferation of programs defining as their object these separate economies.

A third aspect of the geo-spatial representation of the economy was that the new object could be imagined to grow--without altering its physical limits. Orthodox pre-Keynesian economics did not develop a concern with economic growth. If growth was discussed, it was imagined as a natural process of spatial and material expansion--the opening up of new territories, the growth of new cities, the development of new manufactures and markets, the expansion of trade and, above all, the necessary expansion of population. Because the object of economic discourse was not itself a spatially fixed entity, economic growth was not a problematic question. Once economic discourse took as its object the fixed space of the national economy--coinciding with the crisis of over-production and stagnation in the 1930s--and began to picture this object as a dynamic mechanism, it became both possible and necessary to imagine economic growth in new terms: not as material and spatial extension but as the internal intensification of the totality of relations defining the economy as an object.

The idea that the economy was an object whose basic characteristic was to grow transformed political language in the post-war period in both the first world and the third. In the United States, the architects of the cold war seized upon the possibility of militarization that, for the first time, did not appear to require sacrifices from the civilian population. War, it was said, could be financed by growth. In reference to countries outside the West, "to develop" ceased to be just a

transitive verb (referring to the exploitation of a particular territory or resource) and began to refer to an intransitive political and economic process: development. The pre-war concern with colonial welfare was transformed into the post-war ideology of developing what was now called the underdeveloped world (a label that initially shocked Egyptians, for example, when they discovered it was to include them [Lackani, 1951]). Urged on by the United States, post-colonial regimes took up the theme of economic growth to organize and represent their relationship to the populations they now governed. Foreign assistance programs were introduced, graduates were sent to the United States and Europe for training in the new sciences of development, and local departments of economics were set up. All these innovations in the name of development took as their object the economy and helped establish it within countries outside the West as a self-evident structure.

The emergence of the economy, then, should not be examined merely as a conceptual innovation within the discipline of economics or in general social theory. These intellectual developments accompanied and interacted with a broader discursive change in which political and social practice constructed a new, spatially imagined field. The economy came into being between the 1930s and 1950s as the field of operation for novel powers of planning, regulation, statistical enumeration and representation. Through these forms of political rationality and practice it became possible to imagine the

economy as a self-contained sphere, distinct from the social, the cultural, and other spheres.

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The economy now plays such a powerful role in political discourse it is difficult to imagine that it emerged so recently--that only since the middle third of the twentieth century has it been imagined to exist. If the economy is just a discursive construction, moreover, the question arises why it has become so powerful--why, despite the widespread sense that there are fundamental problems with the way it is represented, both mainstream economists and their critics continue to look for more accurate ways to represent it. If it a mere representation, why do we not see through it? The problem with the question lies, of course, in the word "mere," for a representation is never, as it always pretends to be, a mere representation. The word implies a more substantial reality hidden beneath or behind the discursive order, a reality unmarked by representation. This is precisely the effect of the modern order of representation, the effect of a world divided into material reality and the mere representations through which we know and organize it (Mitchell 1988).

The point is not to show that the economy, like everything

else, is a mere construct, not something natural. The point is to trace how economic discourse helped confirm our belief once again in the constructed versus the natural, so that revealing something to be a mere construct seems to us so liberating. The construction of the economy is a particularly powerful instance of the production of this effect, for the "real" economic relations to which economic discourse refers have become the epitome of a material, non-discursive reality.

The power of the economy as a discursive process lies exactly with fixing this effect of the real (economy) versus its representation. The proliferation of models, statistics, plans, and programs of economic discourse all claim to represent the different elements and relationships of a real object, the national-economy. Yet this object, as one could show at length, is itself constituted as a discursive process, a phenomenon of values, representations, communications, meanings, goals, and uses, none of which can be separated from or said to pre-exist their representation in economic discourse.

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