

## **EconoFact Chats: Capitalism Through the Centuries**

**John Cassidy, The New Yorker**

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### **Michael Klein**

I'm Michael Klein, executive editor of EconoFact, a non-partisan web-based publication of The Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at [www.econofact.org](http://www.econofact.org).

### **Michael Klein**

Welcome to this EconoFact Ask Me Anything webinar. Very pleased today to have John Cassidy join us. John has been a staff writer at The New Yorker since 1995. He writes a regular column about economics and politics for the magazine. Over the years, he's also written many longer articles for the magazine, covering subjects such as the middle-class squeeze, to Karl Marx and globalization, to the economics of Hollywood. He's the author, most recently, of the book, *Capitalism and Its Critics: A History from the Industrial Revolution to AI*, and formerly the books *How Markets Fail*, *The Logic of Economic Calamities*, and also *Dot.con: How America Lost Its Mind and Money in the Internet Era*. John grew up in Leeds in Great Britain, and he has degrees from Oxford, Columbia, and NYU, and he now lives in Brooklyn with his family. John, welcome to this webinar.

### **John Cassidy**

Thanks very much for inviting me on.

### **Michael Klein**

Okay, so I'm going to take advantage of being the host and ask you the first question. So there's this very famous quote from John Maynard Keynes, and he wrote "The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men who believe themselves to be quite exempt from any intellectual influences are usually slaves of some defunct economist." Well, just to illustrate this is John's book and it includes, is there a word 'funct?' 'Funct' and defunct economists. John, you spent a long time, I'm sure, writing this really impressive book and as you were doing it, perhaps the ideas of Keynes echoed. To what extent do you believe that practical men were slaves of some economists, and which economists in your book seem to have been especially influential in shaping events?

### **John Cassidy**

Well, it's a very good question, obviously. I mean, the famous Keynes quote, I don't entirely subscribe to. I mean, I obviously believe in it somewhat. I wouldn't have written a 500-page

book about the history of ideas if I didn't think ideas were important. I think Keynes... Keynes was a great rhetorician, and I think he was overstating the argument there somewhat. He was talking in the early 1930s, and I think he was really referring to a sort of late 19th century classic liberalism and the gold standard particularly. And he was referring to the British politicians in the 1920s, especially Winston Churchill, who'd gone back on the gold standard, which turned out to be ruinous for the British economy and contributed to the Great Depression. A lot of modern economic historians make the argument that that was the central problem, the world over. So, I, and clearly Winston Churchill and Mellon and people in the US didn't really know much economics. So in that sense, they were slaves to sort of defunct economic theories. But I don't think that economic theories and economic theorizing are the only thing that drive history. I'm much more of a sort of materialist and economic historian than that. I think economic ideas become particularly important when you're in a crisis, and there's more sort of flexibility in the political system, and then people look around for economic ideas to implement. That view, actually, was also the view of Milton Friedman, who features in my book as a critic of Keynesian capitalism. I remember Friedman back in the 1960s or 70s, said that the role of the intellectual... he was talking about free market intellectuals then, is to keep ideas alive until there's an opportunity to put them into effect. So I guess I'm somewhere in between Keynes and Friedman on that one.

### **Michael Klein**

So, you know, speaking about both Adam Smith and Milton Friedman raises the question of what themes cross the eras. Which ones struck you as the strongest thread throughout, perhaps, the entire range, or a good proportion of the range?

### **John Cassidy**

I mean, I think Capitalism has had... I'm really writing about industrial capitalism, I mean, that's why I date it to 1770 with the rise of the Industrial Revolution. There's a huge debate about whether mercantile capitalism should be considered the same sort of economic structure or whatever, but I don't really get into that. I'm just dealing with industrial capitalism. And certainly since then, there have been a number of themes, contradictions, challenges, whatever you want to call them, which have recurred at regular intervals and have largely been the subject matter of the critiques I write about. One of them, for example, is distributional questions. Is capitalism exploitative? That goes back to the very beginning. Number two, instability. Is capitalism innately unstable without government intervention? And if it is, what are the causes of it? There are two basic ones. Three, which goes back very early, the sort of question, does capitalism bespoil nature? Which, in the modern incarnation is cast in terms of externalities, and climate change being the most famous example. If you read the transcendentalist novelists in America in the 1840s, they're making arguments about capitalism destroying the environment. It's a very early theme, as I said, runs through. There's three very strong themes. Then there's the whole monopoly question, which is also doesn't really feature strongly in the early years of capitalism,

but by the 1860s, when Marx wrote *Das Capital*, and after that, with the rise of the second industrial revolution and the rise of big companies, managerial capitalism in the US, particularly you get the question of how relevant is the model of perfect competition in a world dominated by if not monopolies, oligopolies, etc? That runs through the subsequent 150 years and is obviously a massive question now in the tech economy, where there's sort of zero marginal costs and increasing returns to scale. So there's four themes right there. There are others, but they're four of the prominent themes which run throughout the history of capitalism, I would say industrial capitalism.

### **Michael Klein**

So, we're getting some questions, and some are more specific and, you know, more timely, and some are kind of broader, I think. I'll stick with the broader ones for now, and then we can get to some of the more specific ones. But, here's an interesting question, Andrew writes, capitalism seems to be a Protean concept. It denotes different things to different people, and he asks, what's your perspective on the claim that capitalism serves the privatization of economic gains and the socialization of losses. Do you see this as being justified? Do the ideas, some of the ideas in your book, influence this interpretation. And have these justifications of private gains and socialized losses...do they justify that, and do you think that might change?

### **John Cassidy**

I mean, I think that's a very good question. It goes back to the issue we were just discussing, or I was just discussing, about the great financial crisis, obviously. The first half of the question about the Protean nature of capitalism, I think that's exactly right. I mean, there have been various modes of industrial capitalism over the years. I would split them into...over the centuries, I would split them into the sort of free market model of the early to late 19th century. Then there was the sort of period of instability, really, the first half of the 19th century, wars, Great Depression, etc. Then we sort of found some sort of stable mechanism for 30 years, Keynesian social democracy in the post-war era. That was replaced, there was a counter-revolution, with whatever people call neoliberalism, the shift to the right from, sort of, the 80s through 2015. And I think since 2016, we've been in a sort of new interregnum, where it's not clear what the...how you, sort of, to characterize the model there's various options out there, including sort of Trumpian economic nationalism on the right, and some sort of return to managed capitalism on the left. So, capitalism is protean, that's definitely true, and that's been one of its great strengths. Whenever it goes into crisis, it seems to mutate into another form, and that one survives for another few decades. In terms of the socialization of losses and the privatization of gains, I mean, you know, I don't think that's a big problem in the goods economy. You know, if you're, if you make golf clubs and you produce bad ones, and a rival comes along and produces better ones, or cars or whatever, you're likely to go out of business. That's the capitalist mechanism, and the great defense of the system, that it sort of rewards success and punishes failure. The problem is, in the financial sector particularly, that model doesn't seem to hold, and the great financial crisis

is obviously the classic example of that. In that the financial institutions of various kinds which pumped up the mortgage bubble, the subprime mortgage bubble and the subprime securities bubble, made very large profits. And then when the bill became due after the financial crisis the taxpayer had to step in and, there are two aspects to it...the taxpayer steps in directly with taxpayers' money to bail out the banks, but less visibly to most people, but I think equally importantly, the Federal Reserve steps in with, basically various forms of credit backstops, essentially sort of using the balance sheet of the public sector to bail out the private sector for years on end. And that is a form of socialization of losses as well. That is one of the big critiques of financialized capitalism, is that it's not true capitalism in the sort of free market sense that the losers bear the costs. There are various ways you can try to mitigate that through policy, but I think it's an issue which we certainly haven't resolved so far.

### **Michael Klein**

The chapter of your book that sort of changed my view of the people the most was the one on the Luddites, who, you know, we think of now as just anti-technological change and kind of nearsighted and so on. But you really point out how they well understood what was going on and the threats to them. And this would be as good a time as any to transition to AI. So, can you talk a little bit about the Luddites, and what lessons that might hold for us today as we think about AI fundamentally, perhaps, changing the job market and the way people work?

### **John Cassidy**

Yeah, sure. I mean, when I started out on the book, which was nearly a decade ago, AI was, you know, still just an idea, so that wasn't really the reason I started focusing on the Luddites, but as things have turned out, it turns out to be, you know, incredibly sort of pertinent. The point about the Luddites is they were the victims of the First Industrial Revolution. AI, everybody seems to agree, is going to be the third, fourth, fifth industrial revolution, however you count things. Now, the question is, the Luddites were basically responding to technological displacement of labor. They were mainly skilled artisans who operated on the basis of hand power...hand loom weavers, hand croppers, mostly in woolen and cotton textile industries. They had skills which had been perfected over hundreds of years. They had protections from labor laws. And the feudal system was sort of a social bargain between the nobles, and the masses. And one of the bones that was thrown to the masses, especially skilled labor, were extensive protections for skilled labor in the form of mandatory apprenticeships, and bans on certain goods as well certain imports, cheap imports, etc. Now, the Industrial Revolution undermined that from two sides. On the first side, technologically, with the invention of first water power, and then steam power and the sort of Arkwright mills, etc. The new machines could instantly do the jobs of these artisans at lower cost and, you know, but higher productivity. So there was a financial incentive for the new factory owners to displace the artisans and, you know, use the new machinery. At the same time, there was a political challenge, which is what really gave rise to the violence, in that the political system had given up, really, on the sort of feudal bargain. And when the Luddites' initial

reaction, most of them didn't have a vote, because Britain was really an oligarchy at the time, and most of the northern towns didn't even have MPs. But despite that, they still felt some stake in the system, and their initial reaction was to raise petitions, which they then sent down to Westminster, saying, look, we're loyal English, citizens...we've had this deal for hundreds of years, this social deal, and here are the statutes which we rely on. Some of them went back to Elizabethan times, which protect our status. They're being completely trampled on. Please come and save us. The Parliament at Westminster, which was largely, as I say, a landed oligarchy, and a few early industrialists, basically ignored them, basically using Adam Smithian arguments that it was security of property. Factory owners could basically do what they wanted. So, having been turned away by the political system, the Luddites turned to what they saw as their only last resort, violence, and started attacking some of the factories and smashing the new machinery. So, for hundreds of years after that, I think, you know, Luddite was a term of abuse. Certainly when I was growing up, and I grew up in Northern England, which was where Ludditism came from, and even there, to call somebody a Luddite meant that they were antediluvian, stupid, completely backward...just didn't get it, basically. But I think given the sort of threat of AI, if we're assuming that the AI boosters are correct, and there's going to be mass displacement of not just the manual labor, but white-collar labor, all cognitive labor, according to some of the AI boosters, suddenly, people like us are in the firing line, and I think that's the reason why people are now looking back at the Luddites rather differently and saying, well, there was a certain logic to what they were saying. It may have not been the most forward-looking argument, but from their basis, it was perfectly logical to oppose technical progress.

**Michael Klein**

Do you think there are any lessons from the Luddites for paralegals, physician's assistants...people whose jobs could very well be threatened by AI?

**John Cassidy**

Yeah, I mean, I don't think we have to stop at paralegals, we can go to law partners, right? We can go to economics professors, we can go to journalists.

**Michael Klein**

Not economics professors.

**John Cassidy**

Anybody doing cognitive work if you believe the techno-optimists, I don't know if you'd call them optimists, or the technological boosters. I'm sort of skeptical that it will lead to massive, massive job displacement, but I think it will certainly lead to significant job displacement. So, what should a rational worker do? I guess you can turn yourself into an expert on how to run large language models. I mean there's a sort of paradox here. These machines seem to be able to do anything cognitive labor, very effectively, but physical labor, robotics hasn't advanced that far

yet. So things like care workers, electricians, car repairers, basically the old artisans, maybe they will be the survivors of this technological revolution, and the cognitive workers will end up being the Luddites.

### **Michael Klein**

So, that last answer is linked to a question from one of our attendees, who asks, 'are the rapid consolidation of American businesses into the hands of a few the final downfall to American society?'

### **John Cassidy**

Well, that's obviously the \$64 trillion question. I mean, I would say that people have been predicting the end of capitalism for a long time now. So I'd be wary of saying that this is going to be the right time. Although I do quote in my final chapter, I raised some of these big questions. And I do cite Wolfgang Streeck, a German sociologist who does think that the challenges and contradictions, including monopoly, are just so huge now that they can't be resolved, and that the whole system will eventually come crashing down. I think the counter to that, what has always saved capitalism in the past is not so much the internal dynamics of the system, but the way the political system has adapted to it. So let's just do a mental game, and think what will happen to the political system if the AI, sort of pessimists, optimists, whatever you want to call them, the AI singularity theorists are correct. And we've already had a big shift from capital to labor over the last 20 years. It's gone from, like, 65%, I think, to below 50% now, of GDP. But let's say there's a, you know, it craters and starts to head towards 40 or 30 even. Seems to me the political system is just not going to sit back and take that, as long as there's a democracy. As long as democracy survives, politicians and political parties will react to that. And what are the options? The option which people are talking about, in groups like Elon Musk, is a universal basic income system. Alternative options would be some sort of socialization of the means of production. Not necessarily on a sort of Soviet model, but maybe on a sovereign wealth fund model, sort of building on what the Norwegians did with their oil, etc. If most of the income in society goes to the owners of capital, the political system, eventually, is going to spread some of that out to everybody, as long as there is a democracy. So I can see, even in that sort of technological singularity, some form of capitalism surviving in a much more socialized, regulated and taxed form, and that's what I talk about in terms of managed capitalism. I can't see that sort of capitalism surviving if it's completely unregulated, and the entire middle-class cognitive class is going to be immiserated. I don't think that's a stable equilibrium, to use the economic jargon.

### **Michael Klein:**

I was speaking with a friend and neighbor just before this. And we were talking about, sort of this issue, but couching it in the terms of property rights. So, you know, you can think about, for example, if the government supports unions, or if the government tries to bust unions, that leads to big differences in property rights and consequences for inequality. And so...and then also with

patents, that, you know, leads to a certain level of property rights. You can think of a range of other things. What do you see as having happened? Because you say these things are so intimately related. Over the last, you know, 40 years, since Thatcher, since Reagan, what do you see has happened, through the political process, that might have contributed to widening inequality?

### **John Cassidy**

The last third of my book is basically about the decline of the sort of post-war Keynesian system and the rise of the, whatever you want to call it, neoliberalism, I call it hypercapitalism. And that was a response to failures or inner contradiction in the Keynesian system. Even though I'm a big defender of Keynesianism, there's no doubt that there were inner contradictions which came to the fore in the 1970s, most visibly in a rise in inflation, which ultimately, I think, was based on distributional conflicts, but also in a fall in the rate of profit. And a lot of people on the left think that that was the ultimate reason why the sort of capitalists plus, reneged on the social bargain of the post-war years. Whatever...whether you blame inflation or whether you blame profits, there was a political reaction, obviously, Thatcherism, Reaganism, etc. And we had a big shift towards, as you said, strengthening property rights of owners. That is not, you know, unique in capitalist history at all. We saw a very similar thing in the 1930s and 1940s, when you'd had, and I write about Karl Polanyi, who wrote about this at length in the 1940s. I think Polanyi's theory of the double movement is central here. Basically, the first movement in Polanyi's theory, which is based on free market society in 19th century Britain, is an attempt to build an idealized free market economy. His interpreted the interwar years and the restoration of the gold standard, etc, was that it was an attempt to recreate this sort of liberal 19th century economy in the interwar period, but it produced massive social dislocation, economic depression, and it produced the second double movement, which is a political counterreaction. Now, in the 1930s, one of those counterreactions was fascism. Also the rise of socialism. The socialism, especially in Germany and Austria and places, there was basically a clash between the socialists and the fascists. And Polanyi actually wrote papers in the 1930s saying that that was the only real outcome...that capitalism and democracy couldn't survive, and that the only options were the extremes. Either you transcend the marketplace in terms of socialism, or you reinforce it with an alliance between big business and government in fascism. I think he changed his view subsequently, in the 1940s, he was very impressed by the New Deal and Roosevelt, and early on, he was a big supporter of the British post-war Labor government, which introduced a national health service etc. So I think he came to see that there was a middle ground, in terms of Keynesianism, and that was a double movement, strengthening labor movements, providing a large social safety net, repressing the financial sector to some extent, and then setting up a sort of Bretton Woods system to keep the global system from collapsing in upon itself. That was his double movement in action. So I think what we've seen over the last 40 years is another attempt to sort of recreate an unregulated global marketplace. And now we're seeing the double movement from that, both on the right, in the form of, Trumpian economic nationalism and interventionism, as you say, very sort of random so

far, but probably pretty popular as well. And then, on the left, you're seeing...or center-left, there's this huge debate going on, on, you know, what is the center-left version, sort of offer? And that's the big debate between the abundance wing, and the progressives. Again, obviously, this is a sort of view from 60,000 feet, or view from outer space. But, I see, in sort of mega terms, this is a sort of interregnum period, where there's a lot of plasticity in the system, and obviously with AI, we've got another huge technological shock hitting the system. So I just think it's very difficult to predict the outcome. Although I have my own views, I'm very wary of making, you know, long-term predictions from here.

### **Michael Klein**

Well, we only have a couple minutes left. I wanna again highlight the book, which is just a really wonderful read. Not only is it really well written and very interesting, but it's very compelling, too. And the way that you sort of tie it in across these disparate thinkers, I thought was really interesting. So, I'd like to just ask, you know, for any final thoughts you have on some of these big issues. You know, you said we're in this interregnum period. How do you see it being resolved? Or do you think it's just going to be this very long, extended period where things are not resolved, and there's back and forth and, there's not yet been, the kind of crisis, like the Great Depression, followed by World War II, which came up with kind of this middle-way consensus? What's your view of what could happen over the next 5-10 years?

### **John Cassidy**

Yeah, I mean, that's obviously a very good question. I think there are vulnerabilities on Wall Street, and a possibility of another financial, maybe not a meltdown, but a financial crisis. You're already seeing cracks in private credit, which in some ways raises echoes of the 2000s. A lot of use of off-balance sheet vehicles, a lot of opacity, a lot of marking to model rather than marking to market. I think, you know, there could be a crack there. Obviously, the whole crypto world is an additional source of potential instability. You know, people are now talking about the possibility of if one of the big stablecoins cracks, that could lead to vulnerabilities in the bond market, seeing as they're all backed by treasuries. So, you know, there's endless possibilities out there. In terms of how it plays into politics, I think one of the surprises, really, if you look back at the sort of great financial crisis...is in a way, it was too successful, the bailout. The crisis only lasted, you know, sort of 6 months or whatever. By even early 2009, 2010, things were coming back, the stock market had recovered, and the political support for, you know, major changes dissipated. If you think back to the whole financial regulation debates...the Fed have introduced capital standards, etc. But the idea of maybe getting rid of Glass-Steagall or whatever...even by early 2010, there was no support for that in the Congress. So, the Great Depression obviously lasted a decade, and was absolutely devastating. So that is one issue to be considered...how big a crisis do you need to...especially in the US, where there's such a dysfunctional political system...what sort of scale of crisis do you actually need to produce massive change? But, on the other hand, if AI is this huge shock which people are talking about, and as I say, I'm sort of

agnostic on that, not being a technologist. But if it is going to produce an unprecedented, labor shock, and basically decimate the middle classes, who are the people who vote, I think that will have massive political ramifications. And I think you're already starting to see that on the right and the left. There'll be an alliance of right-wing and left-wing people running on this sort of Anti-AI ticket. You're already starting to see that a bit with people like Josh Hawley on the right and Bernie Sanders on the left, adopting very tech-skeptical attitudes. Bernie's calling for a moratorium on training centers, and Hawley's very critical of big tech firms etc. If this massive labor shock turns out to be reality, I think that will be the theme which dominates politics for the next 10 or 15 years.

**Michael Klein**

So, we're coming to the end of the hour. I'd like to thank you, John, obviously. This has been really interesting, and I've enjoyed the discussions that we've had through EconoFact Chats, and today's discussion.

**John Cassidy**

Thank you very much for inviting us on, I enjoyed the conversation, and hope the listeners got something out of it.

**Michael Klein**

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