If capital’s role in economies has been substantially reduced, can its long-troubling presence in economics fade into the background? That would certainly make life easier for many practitioners and students of the subject, for whom defining capital has been an insoluble and infuriating task for several generations. It is entirely possible that this entire book was encapsulated in a single sentence, 70 years ago, by arguably the greatest of all capital theorists: “Capital” is not what capital is called, it is what its name is called’ (Robinson 1954: 83). But as some much longer books have had to be written to explain this sentence – and agreement has still not been reached – dispensing with the term and the concept might pay dividends all round.

In the crisis of the 1930s, those building the fledgling economic ‘science’ focused on flows – of investment, consumption and exports – because these were the ones whose collapse had led to mass unemployment. Keynes deliberately focused his General Theory on the ‘short term’, in which investment spending added to aggregate demand while the effects on capacity and aggregate supply could be safely set aside. The concept of a circular flow of national income, and the decision to put national income and expenditure at the centre of the post-war system of national accounts, followed quite directly from this analysis. A capital stock does loom large in Keynes’ analysis of aggregate demand deficiency. But it is the stock of already-issued shares and bonds, which as retradable monetary instruments are easily valued – their problem being one of a price which shifts at the very moment rather than being indeterminate or non-existent at any moment.
The heterogeneity of capital, once it encompasses production equipment and technologies as well as sums of money, may defeat any attempts to put a price on it. The ‘transformation problem’ provoked a century-long computational conflict for those seeking to link prices to inputs of capital and labour. Capital valuation has proved no less divisive, with analytical objections to forward- and backward-looking approaches and a distinct mistrust of present prices when capital markets are so capricious.

Out of stock?

With war and the Great Depression behind them, Keynes’ followers set about extending his analysis into the long term. But they immediately ran into the obstacles presented by investment’s supply-side effects – its tendency to cause (and then react to) changes in the value of the existing capital stock. The consequent capital gains and losses could generate income change without any corresponding production activity, a disruption to macro theories based on ‘circular flow’. A capital stock that revalued or devalued with every change of interest rates became a flimsy foundation for analysis, when changes in interest rates were central to new policies for keeping economies stable.

The mainstream that Keynes had challenged meanwhile restored itself to orthodoxy, with advances in general-equilibrium theory that seemed to bridge the micro–macro divide. Any fallacies of composition or circularities of reasoning, in determining the interest rate and the aggregate capital stock, were resolved by all emerging from marketplace bargaining (tâtonnement) simultaneously. To restore the time dimension largely missing in general equilibrium, mainstream theorists also built their own account of long-term development, the neoclassical growth model, based on an aggregate production function in which capital and labour combined to generate national output.

Today’s resilience of the aggregate production function belies its troubled history. Fifty years ago, its developers actually conceded the weakness pointed out by post-Keynesians: a seamless (and shameless) transition from real inputs and outputs to financially measured, fungible ‘capital’ calculated using the rate of return that it then went on to explain. But their admission of circular reasoning (Samuelson 1962, 1966) was the magnanimity of pedagogical victory. The aggregate production function still dominates neoclassical explanations of