



Powerful industry leaders often strive to restrict entry of new enterprises and innovations. But slowing down or stopping new, more productive technologies to protect prior capital investments creates a positive-feedback loop by preventing capital from investing in profitable new opportunities. If capital can't migrate to new profitable investments, the economy goes into a protracted stall.

Lange described the struggle that pits capitalist against capitalist in stark terms. He writes:

The stability of the capitalist system is shaken by the alternation of attempts to stop economic progress in order to protect old investments and tremendous collapses when those attempts fail.⁶

Attempts to block economic progress invariably fail because new entrepreneurs are continually roaming the edges of the system in search of innovations that increase productivity and reduce costs, allowing them to win over consumers with cheaper prices than those of their competitors. The race Lange outlines is relentless over the long run, with productivity continually pushing costs and prices down, forcing profit margins to shrink.

While most economists today would look at an era of nearly free goods and services with a sense of foreboding, a few earlier economists expressed a guarded enthusiasm over the prospect. Keynes, the venerable twentieth-century economist whose economic theories still hold considerable weight, penned a small essay in 1930 entitled "Economic Possibilities for Our Grandchildren," which appeared as millions of Americans were beginning to sense that the sudden economic downturn of 1929 was in fact the beginning of a long plunge to the bottom.

Keynes observed that new technologies were advancing productivity and reducing the cost of goods and services at an unprecedented rate. They were also dramatically reducing the amount of human labor needed to

mind from a preoccupation with strictly pecuniary interests to focus more on the "arts for life" and the quest for transcendence.

Both Lange and Keynes foresaw, back in the 1930s, the schizophrenia that lies at the nucleus of the capitalist system: the inherent entrepreneurial dynamism of competitive markets that drives productivity up and marginal costs down. Economists have long understood that the most efficient economy is one in which consumers pay only for the marginal cost of the goods they purchase. But if consumers pay only for the marginal cost and those costs continue to race toward zero, businesses would not be able to ensure a return on their investment and sufficient profit to satisfy their shareholders. That being the case, market leaders would attempt to gain market dominance to ensure a monopoly hold so they could impose prices higher than the marginal cost of the products they're selling, thus preventing the invisible hand from hurrying the market along to the most efficient economy of near zero marginal cost and the prospect of nearly free goods and services. This catch-22 is the inherent contradiction that underlies capitalist theory and practice.

Eighty years after Lange and Keynes made their observations, contemporary economists are once again peering into the contradictory workings of the capitalist system, unsure of how to make the market economy function without self-destructing in the wake of new technologies that are speeding society into a near zero marginal cost era.

Lawrence Summers, U.S. secretary of the treasury during President Bill Clinton's administration and former president of Harvard University, and J. Bradford DeLong, a professor of economics at the University of California, Berkeley, revisited the capitalist dilemma in a joint paper delivered at the Federal Reserve Bank of Kansas City's symposium, "Economic Policy for the Information Economy," in August 2001. This time, there was much more at stake as the new information technologies and the incipient Internet communication revolution were threatening to take the capitalist system to a near zero marginal cost reality in the coming decades.

