

# **The Theory and History of Marxism and Socialism**

**What is the difference between capitalism and socialism? Under capitalism man exploits man, but under socialism it is just the opposite.**

**—Old Soviet Joke**

**What is socialism? It is the longest road from capitalism to capitalism.**

**—Later Soviet Joke**

# INTRODUCTION

- Socialism is an economic system characterized by state or collective ownership of the means of production, land, and capital.
- Its emergence reflected a long theoretical, ideological, and political development based on criticism of feudal and capitalist systems that existed prior to its modern appearance.
- This criticism originated from religious sources favoring egalitarian income distributions and collective sharing and evolved into a secular theory of history and society in the writings of Karl Marx and his followers.

# INTRODUCTION

- At the present time, with very few exceptions, countries that have identified themselves as socialist are attempting to move toward either intermediate or complete market capitalism.
- Sound and compelling reasons to examine the socialist economic system and its origins:
  - One reason is that despite the considerable efforts to change such economies, many are still substantially socialist in actual practice.
  - Another reason is that frustration with efforts to move toward some form of capitalism have led to a revival of socialist ideology in some of these countries.
  - Finally, the difficulties experienced in the market capitalist world have stimulated reconsideration of at least limited elements of the socialist model as reformist devices. Entirely new forms may yet emerge out of the changes sweeping the world economy.

# THE DEVELOPMENT OF SOCIALIST IDEOLOGY

- **Religious and Philosophical Precursors**
  - In the Old Testament the prophet Amos railed against the rich, and in the New Testament Jesus expressed sympathy for the poor.
  - The ancient Greek philosopher Plato described an ideal society in his *Republic*, *although it included nonsocialist elements such as slavery.*
  - In Europe, Christianity provided fertile ground for germinating socialist ideology.
  - Marx and Engels in the *Communist Manifesto* note that “*Nothing is easier than to give Christian asceticism a socialist tinge.*”

# THE DEVELOPMENT OF SOCIALIST IDEOLOGY

- **Religious and Philosophical Precursors**

- The discovery by Columbus of naked people in America who owned no property and seemed to live in a paradisiacal state influenced Thomas More in 1516 to write his book *Utopia, which described an island where everyone shared and was equal.*
- During the Enlightenment of the 1700s, this egalitarian impulse became secularized in French philosophy, especially by Jean-Jacques Rousseau, and led to the French Revolution in 1789
- In 1796, François “Gracchus” Babeuf, often identified as the founder of modern communism, led an unsuccessful revolt by the “Conspiracy of Equals” who called for the abolition of private property and the holding in common of land.

# THE DEVELOPMENT OF SOCIALIST IDEOLOGY

- **Utopian Socialism**

- Utopian socialism was the first movement to label itself *socialist*
- Its founders, **Henri de Saint-Simon**, **Charles Fourier**, and **Robert Owen**, held diverse views.
- Saint-Simon's ideas first appeared in his 1803 *Letters from an Inhabitant of Geneva to His Contemporaries*
- *Constructivism: the idea that a rational order of society can be planned and constructed from scratch from the top down*
- This reflects Saint-Simon's background in science and engineering, which led him to support **social engineering, a rational central plan ordering society for the benefit of those least well off**

# THE DEVELOPMENT OF SOCIALIST IDEOLOGY

- **Utopian Socialism**

- In the 1830s, Charles Fourier, criticized industrialization and urbanization and called for the creation of small communities of about 1,600 people in rural areas called **phalansteries**
- Fourier argued that “mutual attraction” was the driving force of the universe and that this could be used to order production and all relations within the phalanstery, in which all would live in harmony with each other and with nature

# THE DEVELOPMENT OF SOCIALIST IDEOLOGY

- **Utopian Socialism**

- **Robert Owen** was the **practical utopian** who actually carried out his schemes.
- Coming from a working-class background, Owen became a successful capitalist at an early age.
- From 1800 to 1824 he owned and managed a successful textile company in New Lanark, Scotland, where he introduced **numerous reforms, including higher wages, restrictions on child labor, and education for the workers.**
- Although his fellow capitalists scoffed at his concern for his workers, Owen made money.
- From 1824 to 1829 he attempted to start a utopian community in New Harmony, Indiana, a project that failed.
- He became leader of the first national labor union in Britain, the **Grand National Consolidated Trades Union, suppressed in 1834**



# THE DEVELOPMENT OF SOCIALIST IDEOLOGY

- In the *Communist Manifesto* of 1848, Marx and Engels sneered at these figures, whom they labeled with the epithet *utopian*.
- They argued that the utopian socialists just concocted ideal societies and engaged in vague moralizing while failing to analyze historical dynamics “scientifically” and working to change entire societies.
- But some utopian ideas crept into the work of Marx and Engels, through them into modern socialism, and beyond into modern societies more generally

# THE MARXIAN WORLDVIEW

- **Some General Observations**
- Karl Marx (1818–1883):
  - born in Trier in the German Rhineland,
  - studied philosophy and jurisprudence in Berlin in the early 1840s,
  - became a radical journalist who participated in the uprisings of 1848 in the Rhineland, and
  - spent most of the rest of his life in penurious exile in London, supported financially by his collaborator, Friedrich Engels, who owned a textile mill.
  - Together they developed the Marxian worldview in writings that profoundly influenced socialist thought

# THE MARXIAN WORLDVIEW

- One reason for Marx's enormous influence is that his worldview constitutes a **holistic system by seeking to explain virtually everything in a unified whole.**
- **This allows it to function** as a quasi-religion, with people "converting" to it and following it with great intensity.
- The essence of Marx's holistic theory is his integration of three major strands of nineteenthcentury European thought:
  - **German political philosophy,**
  - **French political sociology, and**
  - **British political economy.**

# The Hegelian Dialectic

- The dominating figure of German philosophy in the first half of the nineteenth century was Georg W.F. Hegel, the first great intellectual influence on Marx.
- He developed the idea of the **dialectic**, meaning that all phenomena reflect a conflict between pairs of unified opposites whose mutual opposition evolves over time to critical breakpoints where reality qualitatively changes.
- These opposites were labeled the **thesis and its antithesis**. At the critical breakpoint their opposition generates something brand new, the **synthesis**, which in turn can generate its own antithesis.

# The Hegelian Dialectic

- The ultimate Hegelian thesis is the *Universal Idea*—*God*; the antithesis is the individual person. The synthesis is the State:
- In Hegel's particular argument from a disunited Germany came the idea of an emergent powerful and nationalistic German state.
- Such ideas influenced the movement for German unification that accelerated toward its culmination under Bismarck in 1871 and influenced the ultranationalist Nazi movement in the twentieth century.

# The Hegelian Dialectic

- In the 1840s when Marx was studying in Berlin, a major split occurred among Hegel's followers.
- Hegel declared that "the real is rational and the rational is real."
- The Old, or **Right**, Hegelians emphasized the first part; existing reality and state structures are rational and therefore should be accepted.
- The Young, or **Left**, Hegelians emphasized the second part; rational ideals are the ultimate reality, and actual reality should be changed to conform to them if it does not, by revolutionary means if necessary.
- Marx identified with this **second group**.

# Historical Materialism

- A central aspect of Hegel's philosophy was its idealism; **ultimate reality is spiritual rather than material, and God is the Universal Idea driving all history.**
- Many Left Hegelians agreed. But Ludwig Feuerbach disagreed in his *The Essence of Christianity, denouncing* religion for being used by ruling elites to delude and control people.
- He asserted that reality is ultimately material: "You are what you eat."
- Marx saw Feuerbach as "standing Hegel on his head" and agreed.

# Historical Materialism

- Marx “materialized” Hegel’s dialectic by using the French idea that the French Revolution was a conflict between socioeconomic classes.
- After a major strike in Lyons in 1831, followers of Babeuf such as Pierre-Joseph Proudhon identified the central class conflict of the emerging industrial society to be between the bourgeoisie (capitalists) and the proletariat (workers).
- Here Marx found the key to historical materialism: the idea that the driving force of history is the dialectic between conflicting socioeconomic classes.
- This was crystallized in the line that opens the main body of the *Communist Manifesto*: “The history of all hitherto existing society has been the history of class struggles.”



# Historical Materialism

- This struggle concerns ownership and control of the means of production: **One class owns and controls the means of production and thus exploits the other class, which does not.**
- The technology of a **society** (**forces of production**) combines with the structure of **classes** (**relations of production**) to determine the **mode of production**.
- **This is the *substructure or base* of a society that determines everything else, the *superstructure*, that is, religion, politics, culture, and so forth.**

# Historical Materialism

- As the dialectic of class struggle proceeds, the mode of production becomes qualitatively transformed into something different.
- The mode of production of ancient Greece and Rome was slavery, characterized by the struggle between master and slave.
- The fall of the Roman Empire thus arose from this contradiction, resulting in the mode of production transforming from slavery to feudalism.
- In turn, feudalism was driven by the struggle between lord and serf and was transformed into capitalism, with its own struggle between the capitalist, who owns the means of production, and the worker, who does not.

# Historical Materialism

- As this struggle was to reach its apex in the most advanced capitalist countries such as England and Germany, there would be a revolutionary transformation into socialism, with state ownership of the means of production, direction of production by a *common plan*, income inequalities and wage payments, and control by a *dictatorship of the proletariat*.
- In his *Critique of the Gotha Program*, written at the beginning of the 1870s, Marx declared that eventually communism would develop, and then all classes and property ownership would disappear and the state would wither away

# The Labor Theory of Value and the Breakdown of Capitalism

- After the crushing of the revolutions of 1848 in Germany, France, and other European countries, Marx fled to London and immersed himself in the study of classical British political economy to understand more fully the dynamics of capitalism
- He found **David Ricardo's labor theory of value**, which argues that the value of a commodity is determined by the amount of socially necessary labor time it takes to produce it.
- This idea contradicts the neoclassical economic theory that value is codetermined by supply and demand, with capital and land contributing to the supply side of the equation.

# The Labor Theory of Value and the Breakdown of Capitalism

- Marx saw land and capital as productive but not as contributing to value.
- Following Ricardo, he argued that land rent was due only to differences in the productivity of different land locations and that marginal land earns zero rent, the true *return to pure land*.
- Also following Ricardo, he saw capital goods as being the product of past labor, simply *indirect labor*.
- *But he went beyond Ricardo in asserting that **the true reality of capital is not the capital good itself but the social relation of exploitation between the capitalist and the worker.***
- *This assertion is the core of the Marxian doctrine.*

# The Labor Theory of Value and the Breakdown of Capitalism

- The value of a commodity,  $W$ , consists of three components:
  - constant capital,  $c$ ,
  - variable capital,  $v$ , and
  - surplus value,  $s$ .
- $c$  corresponds roughly to fixed capital stock, as measured in the labor time required to produce it.
- $v$  represents the value of labor power used in production. Applying the labor theory of value to labor itself, it is the amount of socially necessary labor time it takes to reproduce labor, equal to a subsistence wage

# The Labor Theory of Value and the Breakdown of Capitalism

- *s* is Marx's modification of the labor theory of value, **surplus value**, that value created by the worker but taken by the capitalist, leading to the **exploitation and alienation at the heart of capitalism**
- According to Marx, it is out of surplus value that the capitalist obtains profit.

# The Labor Theory of Value and the Breakdown of Capitalism

- $W = c + v + s$ .
- $q = c/(c + v)$  (*Organic Composition of Capital*)
- $s' = s/v$  (*Rate of exploitation*)
- $p' = s/(c+v)$  (*Rate of profit*)
- Then Marx argues that capitalists are inevitably driven to engage in capital investment by their competition with each other, thereby raising the organic composition of capital



# The Labor Theory of Value and the Breakdown of Capitalism

- It is easy to see that if  $c$  rises while  $s$  and  $v$  are constant, then the rate of profit will decline, which Marx argues is the fundamental tendency of capitalism
- The capitalists destroy themselves as a group as each tries to gain a competitive edge on the other.

# The Labor Theory of Value and the Breakdown of Capitalism

- The dialectic leads capitalists to try to increase the rate of exploitation, *sv*, either by lowering wages, thereby immiserating the workers, or by working them longer and harder.
- These efforts intensify the class struggle and the increasing severity of *commercial crises* (now called *recessions*).
- Thus, “One capitalist always kills many.” This leads to an increasing concentration of capital in fewer and fewer hands, while the proletariat expands and becomes more miserable and more conscious of its condition
- Eventually the contradiction between the forces of production and the relations of production becomes so intense that the system is overthrown by the revolutionary working class.

# CONTROVERSIES IN SOCIALISM:

## Orthodoxy and Revisionism

- By the time of Engels's death in 1895, difficulties had arisen for the Marxists of the German Social Democratic Party
- Not only had capitalism not collapsed but real wages were rising, thus undermining the expectation of the imminent arrival of revolution
- The first Marxist to point this out was Eduard Bernstein, in his 1899 book *Evolutionary Socialism*.
- He argued that since conditions were improving, a reformist and gradualist approach through parliamentary democracy should be used to achieve gains for the working class.
- This eventually became the policy of the German Social Democratic Party, which still exists, and more generally of modern European social democracy.

# CONTROVERSIES IN SOCIALISM:

## Orthodoxy and Revisionism

- Bernstein's arguments provoked a counterattack by the orthodox Marxist, Karl Kautsky, who argued that economic crises were becoming ever more severe and that eventually there would be a chronic depression.
- But Kautsky as a leader of the German Social Democratic Party practiced revisionism as a policy while waiting for the expected revolutionary upheaval.
- Yet when the Bolsheviks seized power in Russia, Kautsky criticized them and openly supported revisionism's parliamentary reform program.
- Besides influencing social democracy, revisionism influenced market socialist reformers later in Eastern Europe.

# CONTROVERSIES IN SOCIALISM:

## The Theory of Imperialism and Marxism-Leninism

- Another explanation for the failure of capitalism to collapse, **proposed in 1902 by John Hobson**, was the **theory of imperialism**.
- The advanced capitalist countries had reduced their internal contradictions by engaging in the conquest of less developed countries, especially exemplified in the “**scramble for Africa**” among the major European powers in the late nineteenth century.
- There they could create captive markets and supply themselves inexpensively with raw materials.

# CONTROVERSIES IN SOCIALISM:

## The Theory of Imperialism and Marxism-Leninism

- Vladimir Illich Ulyanov, known as Lenin, further developed the **imperialism thesis** in his 1916 *Imperialism: The Highest Stage of Capitalism*
- Refocusing revolutionary expectations on less developed countries became **Marxism-Leninism, the official Soviet doctrine after 1917, and the guiding light of Marxist revolutions** in the twentieth century in less developed countries from China to Cuba to Vietnam.

# CONTROVERSIES IN SOCIALISM:

## Anarchism and Syndicalism

- Another strand of radical thought and activity was that of **anarchism and its close relative, syndicalism; both concepts argued that the state should be abolished outright.**
- For the **anarchists** this often led to conspiratorial **violence directed at assassinating heads of state.**
- Successful efforts included the 1881 assassination of Alexander II, the “liberal tsar,” who emancipated the Russian serfs, and the 1901 assassination of U.S. President William McKinley

# CONTROVERSIES IN SOCIALISM:

## Anarchism and Syndicalism

- Anarchism was founded in 1793 by William Godwin of Britain, whose wife, Mary Wollstonecraft, is regarded as the founder of feminism.
- Influenced by Rousseau, Godwin argued that without government, people will peacefully organize themselves into a harmonious, non-oppressive order. This view has links with both utopian socialism and modern libertarianism.
- In 1840 Pierre-Joseph Proudhon linked anarchism with communism and the revolutionary working-class movement in his *What Is Property?* (Proudhon's blunt answer: "Property is theft!").
- In the 1860s he became the father of the French trade union movement, which was long anarchist. Marx viewed this position as fuzzy-minded and unscientific.



# CONTROVERSIES IN SOCIALISM:

## Anarchism and Syndicalism

- Marxism and anarchism competed in the 1860s after Marx founded the **First International**.
- His main rival was the Russian anarchist Prince Michael Bakunin, who supported conspiratorial and violent revolution and ridiculed Marx for his “statist” tendencies.
- Bakunin had strong support among the workers’ movements in Spain, Italy, Switzerland, and France and in 1872 appeared on the verge of taking control of the First International, leading Marx to dissolve the organization.
- In the 1890s, proanarchist trade unions in the above countries argued that after the abolition of the state, society should be run by the trade unions themselves, with production being directly controlled by the workers at the production site. This philosophy is known as ***syndicalism***.

# SOME DIVISIONS OF SOCIALISM SINCE 1917:

## Trotskyism

- Leon Trotsky, a former Menshevik and founder of the Red Army in the Soviet Union, was Joseph Stalin's chief rival for power after Lenin's death in 1924.
- Exiled in 1927, Trotsky founded the **Fourth International, which fragmented into factions after his assassination** in 1940 in Mexico by a Stalinist agent.
- Trotsky and Stalin agreed about the need for rapid industrialization in the Soviet Union.
- But they disagreed about whether this should be done in isolation or in an international context. Trotsky supported the idea of an international **permanent revolution, believing** that true socialism could not be achieved in the Soviet Union without an international revolution.
- He criticized Stalin for his dictatorial and bureaucratic tendencies

# SOME DIVISIONS OF SOCIALISM SINCE 1917:

## Titoism

- Titoism developed as a practice before it became an ideology. Josip Broz, known as Marshall Tito, led Communist partisans in throwing the Nazis out of Yugoslavia during World War II, with little assistance from the Soviet Red Army.
- Initially a strong Stalinist, Tito broke with Stalin in 1948 and declared the political independence of Yugoslavia from Soviet influence.
- This led to an effort to develop a distinctive economic system for Yugoslavia that would reinforce the separate path Tito had chosen.
- The system adopted was **worker-managed market socialism, described by some as *quasi-syndicalist*.**
- ***In Tito's*** Yugoslavia it consisted of state-owned enterprises in a one-party state operating with little central planning according to market forces and with managements appointed by workerselected boards

# **SOME DIVISIONS OF SOCIALISM SINCE 1917:**

## **Maoism**

- In 1949 a Communist insurgency led by Mao Zedong took power in mainland China.
- The Maoist road to power was characterized by reliance on a rural guerrilla movement that encouraged egalitarian economic development in zones of revolutionary control.
- Immediately after its 1949 communist revolution, China was quite friendly with the Soviet Union and imitated the centrally planned command industrialization model of Stalin's country.
- Nevertheless in China there was always more emphasis upon rural agricultural development, as well as upon egalitarianism and the use of moral incentives

# SOME DIVISIONS OF SOCIALISM SINCE 1917:

## Maoism

- In the **Great Proletarian Cultural Revolution** at its height from **1966 to 1969**, **Mao** emphasized industrial decentralization throughout the country, complete communalization of agriculture, total egalitarianism and moral incentives, and the complete obliteration of all vestiges of previous culture
- In many Third World countries, they became powerful rural guerrilla movements opposing both capitalism and Soviet-supported leftist groups, notably in Angola, Cambodia, and Peru.
- Two years after Mao's death in 1976, his philosophy was repudiated in China. This was largely, but not totally, followed by a decline of support for Maoism among its adherents, although many of these movements continue to follow the rural guerrilla strategy recommended by Mao.
- Despite this general decline, a new Maoist movement has gained strength recently in rural Nepal and some parts of India

# THE THEORY OF ECONOMIC SOCIALISM

## The Socialist Planning Controversy

- The first serious analysis of socialist planning followed neoclassical theory rather than Marxist theory
- The **socialist planning controversy began in 1908 with Enrico Barone's "The Ministry of Production in the Collectivist State"**
- Barone applied Pareto's efficiency analysis of the Walrasian general equilibrium model.
- He posited a system with no money and the state determining *equivalences (relative prices) between goods and distributing them through* state stores in exchange for goods brought by people

# THE THEORY OF ECONOMIC SOCIALISM

## The Socialist Planning Controversy

- The Ministry of Production would have to know all costs of production, all demand functions, and all capital stocks.
- From this a general equilibrium could be solved for a *collective maximum that would correspond to* an efficient competitive equilibrium in that the cost of production would be minimized and the price would equal the cost of production.
- In 1920 Ludwig von Mises critiqued the practicality of this proposal
- Money is necessary to calculate prices.
- The *artificial market* of the experimenting socialist central planner can never generate *rational prices because of* insufficient incentives.
- The profit motive based on the private ownership of capital is the fundamental driving force in this Austrian School view

# THE THEORY OF ECONOMIC SOCIALISM

## The Theory of Command Socialist Central Planning

- Practice preceded theory in the development of command socialist central planning.
- Central planning first appeared in Soviet Russia with the 1920 electrification plan (Lenin sloganeered that “Communism equals Soviet dictatorship plus electrification.”).
- With the de facto market socialist NEP in 1921, indicative planning was instituted for several heavy industrial sectors under state ownership such as electricity, steel, and cement
- This was carried out using the **material balance method**, which became the main planning method used by the Soviet central planning authority, **Gosplan**, after the **introduction of** comprehensive command planning in 1928.



# THE THEORY OF ECONOMIC SOCIALISM

## The Theory of Command Socialist Central Planning

- The basic outline of Soviet central planning is as follows:
  - Long-term planning was on a five-year time horizon.
  - Five-year plans were broken down into one-year plans from which monthly quotas for individual firms were derived
  - Each firm had a **techpromfinplan, or technical-production-financial plan**.
  - **It specified output** quantities and prices; input quantities and prices, including wages; and also levels and kinds of capital investment for the firm, presumably consistent with those for other firms

# **THE THEORY OF ECONOMIC SOCIALISM**

## **The Theory of Command Socialist Central Planning**

- For the first five-year plan, the material balances were based on the inherited structure of production
- This involved figuring out how much of which final goods were to be produced.
- Then the amounts of all the inputs required to produce those outputs were estimated, and the inputs to produce those inputs, and so forth.
- If more tanks were to be produced, this required more steel, which requires more coal and more iron ore, as well as more steel to produce the machinery used in mining coal and iron ore, and so forth. Sources of inputs could be production, imports, or previously existing stocks

# THE THEORY OF ECONOMIC SOCIALISM

## The Participatory or Cooperative Alternative

- Five characteristics distinguishing the participatory economy:
  - Workers will manage the firms. In practice, this has usually involved management by professional managers hired by worker-controlled boards
  - There will be income sharing, often thought by many theorists to be the same as wages equaling the average product of labor
  - Productive resources are not owned by the workers and therefore must be paid for by rentals, although workers enjoy **usufruct rights to the fruits of the operation.**
  - It will be a market economy
  - Workers can freely choose where to work