institutionalized in political drives, say, for a progressive income tax or various subsidies from government, rather than erupt in a revolutionary destruction of the entire system.

All this does not deny that there are indeed passages in Marx which describe only a relative impoverishment of the working class and a growth in their envy at those wealthier than they.[42] The point, however, is that there is *also* another, dominant strain in Marx's writings which forecasts and stresses an increasing *absolute* real, objective impoverishment of the working class.

Finally, there is a glaring inner contradiction at the heart of Marxian economics that is never resolved. If the capitalists suffer over time from a falling rate of profit, and workers suffer from increasing impoverishment, who is *benefiting* in the distribution of the economic pie? At least in the Ricardian system, the capitalists suffer from a falling rate of profit, and the workers are kept at brute subsistence level, but *some* group keeps grabbing all the social benefits – the parasitic landlords and their increasing absorption of the social product by land rent. But in the Marxian system, the landlords have disappeared, increasingly and rapidly assimilated into the capitalist class. So how can *both* mighty classes lose out under developing capitalism?[43]

13.5 The 'laws of motion', III: business cycle crises

A final variant of Marx's attempt to demonstrate the inevitability of the proletarian revolution was closely related to the doctrine of absolute impoverishment. This variant, however, stressed, not a steady secular trend toward growing impoverishment or an industrial reserve army, but rather increasingly destructive business cycle crises and depressions, marked by impoverishment and cyclical unemployment. We turn now to Marx's theory, or rather his various *theories* of cycles and crises, for his writings contain several very different and incompatible theories. Perhaps Marx, in desperation, was willing to come up with a number of theories, hoping that one of them, at least, might stick.

13.5.1 Underconsumptionism

The underconsumption explanation of depression was Marx's dominant variant of cycle theory, as evidenced for example, by his and Engels's repeated attacks on Say's law, and on Ricardo's adherence to that law.[44] The point, as elaborated particularly in Marx's *Theories of Surplus Value* (written 1861–63), is that as capitalist accumulation and production advances, it outstrips the ability of the exploited workers, who earn far less than the value of their product, to consume. The mass of workers cannot consume enough to buy the capitalist product, and the slack is not taken up by the capitalist exploiters, who are far more interested in saving and accumulating than in consuming. Hence, Say is incorrect, and there is systemic general overproduction, with production outstripping the masses' ability to consume.[45] As Marx repeatedly says, 'the majority of the people, the labouring population, can extend their consumption only within very narrow limits'.

Marx returns to this dominant underconsumptionist theme in Volume III of *Capital.* In capitalism, Marx writes, the 'consuming power of society' is determined by 'antagonistic conditions of distribution', which 'reduce the consumption of the great mass of the population to a variable minimum within more or less narrow limits'. Moreover,

> the consuming power is furthermore restricted by the tendency to accumulate, the greed for an expansion of capital and a production of surplus-value on an enlarged scale... The market must, therefore, be continually extended... But to the extent that the productive power develops, it finds itself at variance with the narrow basis on which the conditions of consumption rest.

Also, in Volume III of *Capital,* Marx writes: 'The ultimate reason for all crises always remains the poverty and restricted consumption of the masses, in the face of the drive to develop the productive forces as if only the absolute consumption of society set a limit to them'.[46]

The most obvious and blatant problem with an underconsumptionist theory of economic crises is that it explains too much. For if the consumption of the masses is never enough to buy back the product and keep business profitable, why is there no *permanent* depression? Why are there *booms* as well as busts? Both Marx and Engels apparently sensed this problem, and hence saw the need for at least a supplementary theory. Thus, in Volume III of *Capital,* Marx, in addition to the quote above, conceded that there are at least temporary boom periods before crises, when wages rise and workers obtain a larger share of the product.[47] Engels, too, in *Anti-Dühring,* first states that 'large-scale industry, which hunts all over the world for new consumers, restricts the consumption of the masses at home to a starvation minimum and thereby undermines its own internal market'. But, then, a bit later in the same work, Engels, after asserting that 'the underconsumption of the masses is therefore also a necessary condition of crises', admits the concept cannot explain 'why crises exist today' while 'they did not exist at earlier periods'.

By the time that Engels wrote the preface to the first English edition of Volume I of *Capital* in 1886, however, the problem had been neatly resolved to his own satisfaction. While business cycles of boom and bust had indeed prevailed until 1867, he opined, the English economy was now satisfactorily bogged down in permanent depression. Whatever the subsidiary causes of the booms, they were now ended, and permanent depression would soon usher in the proletarian revolution. Amidst the sea of wreckage of self-assured Marxian 'predictions', this was one of the most absurdly and strikingly wrong. Thus Engels:

> The decennial cycle of stagnation, prosperity, over-production, and crisis, ever recurrent from 1825 to 1867, seems indeed to have run its course; but only to land us in the slough of despond of a permanent and chronic depression. The sighed-for period of prosperity will not come; as often as we seem to perceive its heralding symptoms, so often do they vanish into air. Meanwhile, each succeeding winter brings up afresh the great question, 'what to do with the unemployed'; but while the number of the unemployed keeps swelling from year to year, there is nobody to answer that question; and we can almost calculate the moment when the unemployed losing patience will take their own fate into their own hands.[48]

In the event, of course, prosperity came to England long before the proletarian revolution.

In any case, underconsumption is a totally flawed theory, whether used to explain cyclical crises or permanent depressions. In the first place, savings do not 'leak out' of the economy; they are spent, on vitally important investments in resources and capital goods. More importantly, as in the case of every crazy theory, the price system quietly drops out of the picture, and we are left with such aggregative juggernauts as 'production' and 'consumption' facing each other. There is no such thing as overproduction; there is only too much produced for the *price* that consumers are willing to pay, a price which, in crises, does not cover the costs incurred by businessmen. But, once we recognize *that*, we must then also see that, in order to bring production and consumption into balance, in order to eliminate the problem of supply, or stock, being greater than demand, all that need happen is for prices to fall. Let prices fall, and they will soon equilibrate supply and demand, and business losses will only be temporary. And this point leads the analyst to consider the next step: why did businessmen – entrepreneurs with a sterling overall record in forecasting demand and costs – why this time did they bid up costs so excessively high that they suffer losses in trying to sell the product? In short, why did businessmen make this cluster of severe forecasting errors that mark the period of economic crisis? None of this, of course, could be considered by Marx and by the underconsumptionists, who do not bother considering the price system. Moreover, Marx, like Smith and Ricardo before him, has no conception of the entrepreneur or of the function of entrepreneurship.

Finally, it is well known that crises invariably begin, not in the consumer goods industries that underconsumptionism would lead us to expect, but precisely in capital goods industries, and in those industries farthest and most remote from the consumer. The problem it would seem – correctly – is *too much* rather than *too little* consumption.[49]

13.5.2 The falling rate of profit

The second crisis theory, prominent in Volume III of *Capital*, focuses on the Marxian falling rate of profit. The incessant drive of capitalists to accumulate brings about a secular trend of the rate of profit to fall. Finally, when profit falls below 'a certain rate', the growth of capital ceases, and an economic crisis ensues. Just as capitalism leads to an overproduction of goods in relation to consumption, so too it creates an over-accumulation of capital. The cessation of capital investment leads to a recession in the capital goods industries, which then widens into a general depression.

While this second explanation of economic crisis at least has the merit of focusing on capital goods industries rather than consumption, it is scarcely an improvement. In the first place, once again, the falling rate of profit seems to describe a law of secular decline; but why should it lead to a *specific* economic collapse, much less a cyclical series of booms and busts? Even if the profit rate falls, why should businessmen stop investing, especially all of a sudden? What is the mechanism to explain the sudden, sharp upper turning point? Moreover, even if the profit rate falls, the admittedly increasing mass of saved capital might well increase the *absolute amount* of aggregate profits, so that even though the *rate* falls, the process may still stimulate a great deal of further investment.

Furthermore, even if Marx could explain an upper turning point and a sharp crash, why should there ever be a *revival*? Here is a particularly shaky point in Marx: capital *decumulates* greatly during the crisis, so that the capital denominator actually declines, and hence the rate of profit to total investment rises. This process can again create greater investment, and another boom. The likelihood, however, that a depression will be steep enough to actually consume capital and *also* raise profit rates more than the alleged continuing tendency for the profit rate to fall, is very low. And even if a recovery gets under way, why should a lusty boom ensue?

There is, finally, no hint in Marx or Engels why these cycles or depressions are supposed to increase in intensity, universality, and depth over time, finally to result in permanent depression and revolution.

All in all, the falling rate of profit strand of cycle theory is singularly shadowy and unconvincing.

13.5.3 Disproportionality

Here, in the 'disproportionality' theory of Marx, we return, in a deep sense, to where we, or rather Marx himself, began: to communism, and the desire to eradicate the market and the division of labour. Woven into his discussions in *Capital* and *Theories of Surplus Value* (written 1861–63) is the view that cycles and crises inevitably stem from the market process. To Marx, the problem was endemic in the market economy, and particularly in the money, or indirect exchange, economy. Since the market allegedly had no coordinating mechanism, all production and exchange, according to Marx, is chaotic, discoordinated, a regime of what he called 'the anarchy of production'. As Bober sums it up:

> This theory is concerned with the maladjustments and disproportionalities traced to the anarchy of competition; to the blundering, incoordinate moves of multitudes of individual capitalists; to the complexities of the many elements which must fit into each other in an enormously complex world, and which will do so by sheer accident if not by planned design; and to the vagaries of wind and weather.[50]

Marx had a telling point against the Ricardians, the British classicists of his day. The world does not indeed bask happily in the never-never land of long-run equilibrium. But what Marx overlooked is precisely what the Ricardians overlooked: if they had shifted their focus out of the cloudland of long-run equilibrium, and back to the real world of the market economy, they would have discovered a very different world. They would have seen what Turgot and the French and Italians and scholastics had seen: the real world of markets is not perfectly, but still harmoniously and dynamically coordinated by two crucial elements: a price system that is free to fluctuate to equate the changing forces of supply and demand; and entrepreneurs who, in their continuing search for increased profits and avoidance of losses, perform this coordinating task. But by focusing on long-run equilibrium, the British classicists had eliminated both the real world price system and the vital entrepreneurial role in the market economy – the successful anticipation of change in a changing and uncertain world. If there is no price system for the exchange of property titles to goods and services, and there are no capitalist–entrepreneurs, then indeed production is in a state of 'anarchy'.

Marx also saw that discoordination might cause over-accumulation of capital, and wove this theme into the preceding variant – the falling rate of profit – in an attempt to explain cycles and crises. Some later economists, notably the Russian Marxist economist Tugan-Baranowsky, elaborated these hints into what has been called a 'non-monetary over-investment theory' of the business cycle.[51]

Marx saw that the monetary and credit system played an important role in cycles and crises: credit is important in the centralization of capital: it encourages speculation, intensifies the crisis, and accelerates overproduction. But to emphasize bank credit as a fundamental cause of the cycle could have been fatal for Marx's attempt to pin the blame for cycles and crises on forces inherent within the capitalist market economy. And so it was necessary for him to repudiate any possible currency school emphases on the causal role of bank credit: 'The superficiality of Political Economy', Marx writes in *Capital*, 'shows itself in the fact that it looks upon the expansion and contraction of credit, which is a mere symptom of the periodic changes of the industrial cycle, as their cause'.[52]

Despite his overt scorn for John Stuart Mill, Marx was thereby driven into implicit support for the Mill–Tooke–banking school theory of the business cycle.[53] As we have seen, the currency school writers themselves were forced into this view after the seeming failure of Peel's Act of 1844 to eradicate business cycles. While all banking school-type theorists on *non*-monetary disproportionality and over-investment were obliged to admit that expansion of money and bank credit were necessary conditions to a cycle boom, they all proclaimed that credit cycles were only passive resultants of non-monetary cycles of 'over-' and 'under-' trading or of 'speculation'. Thus Millian non-monetary cycle theory permeated the ranks of economists, and encouraged economists, including Marx, to blame the capitalist market economy for the recurrence of business cycles. The insights of the vanished currency school, the realization that money and credit as a *necessary condition* was close to saying a *cause*, and the original insight that it takes bank credit expansion to distort the market's signals to entrepreneurs and create a boom-bust cycle, remained buried, to be discovered or rediscovered by Ludwig von Mises in 1912.

13.6 Conclusion: the Marxian system

Thus, Karl Marx created what seems to the superficial observer to be an impressive, integrated system of thought, explaining the economy, world history, and even the workings of the universe. In reality, he created a veritable tissue of fallacies. Every single nodal point of the theory is wrong and fallacious, and its 'integument' – to use a good Marxian term – is a web of fallacy as well. The Marxian system lies in absolute tatters and ruin; the 'integument' of Marxian theory has 'burst asunder' long before its predicted 'bursting' of the capitalist system. Far from being a structure of 'scientific' laws, furthermore, the jerry-built structure was constructed and shored up in desperate service to the fanatical and crazed messianic goal of destruction of the division of labour, and indeed of man's very individuality, and to the apocalyptic creation of an allegedly inevitable collectivist world order, an atheized variant of a venerable Christian heresy.

During the 1960s, messianic and romantic Marxists liked to make a sharp separation between the earlier lovable, idealistic, 'humanist' Marx, and the later, mean, hard-core, proto-Stalinist 'economist' Marx. But we now know that there is no such division. There is only one Marx, whether early or late, once he adopted Marxism in the 1840s. There is even a good case for seeing one lifelong Marx, including his crazed, demonic poems calling for universal destruction in his still earlier graduate school years at Berlin. In fact, the humanist Marx is scarcely a relief from the later economist – quite the contrary. All Marxes-in-one were in service to his fanatical and destructive messianic vision of communism. A convincing case can be made, indeed, that the well-known horrors of twentieth century communism: of Lenin, Stalin, Mao and Pol Pot, can be considered the logical unfolding, the embodiment, of the nineteenth century vision of their master, Karl Marx.

13.7 Notes

1. Karl Marx, *Capital, Vol. I* (New York: International Publishers, 1967), p. 37.
2. Ibid., I, p. 39.
3. Compare the discussion in David Conway, *A Farewell to Marx: An Outline and Appraisal of His Theories* (Harmondsworth, Mddx: Penguin Books, 1987), pp. 83–9.
4. As Böhm-Bawerk was later to point out, even if we choose to adopt this cost-of-production approach, we have to recognize that capital embodies not just labour, and land, but also *time*. Land, as we shall see further, was tossed out by Marx by amalgamating it into capital; but if time had been acknowledged as an important factor, then time-preference would have to be acknowledged, and the entire Marxian system would have collapsed.
5. 'Constant' because, according to Marx, capital goods, being deadweight, cannot generate any profit, or increased value.
6. Professor Conway neatly summarizes Marx's point: '...the labourer is paid in wages per day a sum of value equal in amount to the value of his labour-power for a day. Since the value of a day's labour-power is equal to the amount of labour required to produce that day's labour-power, it follows that the value of a day's labour-power is equal to the amount of labour required to produce the labourer's means of subsistence consumed per day'. Conway, op. cit., note 3, pp. 96–7.
7. In a previous passage of the *Manifesto*, Marx and Engels had written that 'the price of a commodity, and therefore also of labour [later modified to 'labour-power'], is equal to the cost of production'. Furthermore, 'the cost of production of a workman is restricted, almost entirely, to the means of subsistence that he requires for his maintenance, and for the propagation of his race'. See Robert C. Tucker (ed.), *The Marx–Engels Reader* (2nd ed., New York: W.W. Norton, 1972), pp. 479, 485.
8. On the dependence of the Marxian system on the iron law of wages, see Ludwig von Mises, 'The Marxian Theory of Wage Rates', in Eugen von Böhm-Bawerk, *The Exploitation Theory of Socialism–Communism* (3rd ed., South Holland, Ill.: Libertarian Press, 1975), pp. 147–51. Von Mises's essay was originally published in *Christian Economics*, May 1961.

   As von Mises points out, Marx did not like the *name* 'iron law of wages', because it was coined by his great rival in German socialist politics, Ferdinand Lassalle (1825–64), but he adhered strongly to the *concept*.

   Curiously, Lassalle's famous phrase, translated into English as 'the iron law', should have been called, as Alexander Gray points out, 'the brass' or 'brazen' law of wages. As Gray characteristically adds, 'in any case, being metallic, it does not greatly matter. A maniac for accuracy might indeed point out that what he [Lassalle] most frequently called it was '*das eherne* [brazen] *und grausame* [cruel] *Gesetz* [law]' which somehow sounds even more horrible'. Alexander Gray, *The Socialist Tradition* (London: Longmans, Green, 1946), p. 336.
9. Eugen von Böhm-Bawerk, *Capital and Interest* (London: Macmillan, 1890), p. 390.
10. Eugen von Böhm-Bawerk, *Karl Marx and the Close of His System* (New York: A. M. Kelley, 1949), p. 5.
11. Ibid., pp. 5–6. The 'contestants' included the well-known German statistician Wilhelm Lexis (1885), the Marxist Conrad Schmidt (1889, 1892–93), the Italian Marxist Achille Loria (1890), the *laissez-faire* liberal Julius Wolf (1891), and a number of Italian economists during 1894.
12. Remember that, as we have noted in our discussion of the definition of class, Karl Marx was scarcely cut off in midstream from working on *Capital*. He had abandoned work on his *magnum opus* at the time of publication of Volume I, and had spent a decade and a half lying to his doting friend and patron about his continuing to work on *Capital*.
13. First published as *Zum Abschluss des Marxschen Systems* in a *Festschrift* for Karl Knies in 1896, and published as a separate booklet the same year. It was a rapid success, being translated the following year into Russian, and the English translation coming out in 1898. Unfortunately, 'close' is a peculiar and misleading term; a far more accurate title would have been *Karl Marx and the Completion of His System*.

14. Paul M. Sweezy, 'Professor Cole's *History of Socialist Thought*', *American Economic Review*, 47 (1957), p. 990. Cited in Gary North, *Marx's Religion of Revolution* (Nutley, NJ: The Craig Press, 1968), p. 163. Sweezy also maintained that the German Ladislaus von Bortkiewicz had refuted Böhm-Bawerk's critique of Marx, but Samuelson pointed out that von Bortkiewicz's position was far closer to Böhm-Bawerk than it was to Marx. Paul Samuelson, 'Wages and Interest: A Modern Discussion of Marxian Economic Models', *American Economic Review*, 47 (1957), pp. 890–92.
15. Gray, op. cit., note 8, p. 319.
16. See Ludwig von Mises, *Notes and Recollections* (South Holland, Ill.: Libertarian Press, 1978), pp. 39–40.
17. For a thorough critique of recent attempts by a group of 'analytical Marxists', to jettison the labour theory of value and yet retain Marxism, see David Gordon, *Resurrecting Marx* (New Brunswick, NJ.: Transaction Books, 1990).
18. Sowell's claim is on page 153 of the London: Lawrence and Wishart edition. Sowell also absurdly denies that Marx believed at all in a labour theory of value. Thomas Sowell, *Marxism: Philosophy and Economics*: (London: Unwin Paperbacks, 1986), pp. 3–5, and *passim*. The excellent and devastating review of Sowell is David Ramsay Steele, 'Review of Thomas Sowell, *Marxism: Philosophy and Economics*', *International Philosophical Quarterly*, 26 (June 1986), pp. 201–3.
19. Böhm-Bawerk, op. cit., note 10, p. 30. Also see Gray, op. cit., note 8, p. 317.
20. Gray, op. cit., note 8, pp. 321–2.
21. *Real* wages, of course, remain at subsistence level.
22. Marx, of course, was not interested in the land question, since land was supposed to be withering away in importance with the decline of the 'feudal-land' remnant as capitalism advanced on its determined course. Furthermore, Marx was anxious to get on to his two-class, capitalists *vs* proletariat model, and so he simply assimilated land into the concept of 'capital'.
23. The Leninist theory depends on the claim that both state monopoly capitalism and imperialism come later than competitive, non-imperialist capitalism, the latter condition having prevailed during Marx's lifetime. But imperialism – tribes or nation-states conquering or aggressing against, and robbing, other tribes or nations – is as old as recorded history, and state monopoly capitalism at least as old as the mercantilist era.
24. Marx, op. cit., note 1, I, p. 595.
25. Tucker, op. cit., note 7, p. 213.
26. Thus, Marx wrote, in Volume I of *Capital*, that 'It is a law, springing from the technical character of manufacture, that the minimum amount of capital which the capitalist must possess has to go on increasing', and 'the development of capitalist production makes it necessary constantly to increase the amount of capital laid out in a given industrial undertaking'. Cf. Conway, op. cit., note 3, pp. 126–7.
27. This has been spectacularly true in the computer industry. In the cases of xerography and Polaroid photography, as well, the pathbreaking innovations that founded the industry were met with incomprehension and rejection by the Behemoths in the photography field. For these and other pre-computer examples, see John Jewkes, David Sawers, and Richard Stillerman, *The Sources of Invention* (1959, 2nd ed., New York: Norton, 1968).
28. On the merger movement at the turn of the century and its collapse, see Gabriel Kolko, *The Triumph of Conservatism: A Reinterpretation of American History, 1900–1916* (Glencoe, Ill.: The Free Press, 1963); Arthur S. Dewing, *Corporate Promotion and Reorganizations* (Cambridge, Mass.: Harvard University Press, 1924); idem., *The Financial Policy of Corporations* (5th ed., New York: Ronald Press, 1953), 2 vols; and Naomi R. Lamoreaux, *The Great Merger Movement in American Business, 1895–1904* (New York: Cambridge University Press, 1985).
29. It is unfortunate that Professor Conway, in his generally illuminating work on Marxism, uncritically accepts the Marxian dictum of the tendency of giant firms to dominate each industry. Conway, op. cit., note 3, p. 128.
30. In Marx's colourful language, the centralization of capital consists of 'the expropriation of many capitalists by few', or, in even more vivid rhetoric, 'One capitalist always kills

many'. Marx, op. cit., note 1, I, p. 763.

31. Quoted in Ludwig von Mises, *Socialism: An Economic and Sociological Analysis* (2nd ed., New Haven: Yale University Press, 1951), p. 362.
32. *Ibid.*
33. Marx, op. cit., note 1, I, p. 763.
34. Thus, Marx writes, again in *Capital*: 'The greater the social wealth, the functioning capital, the extent and energy of its growth, and, therefore, also the absolute mass of the proletariat and the productiveness of its labour, the greater is the industrial reserve army... The relative mass of the industrial reserve army increases therefore with the potential energy of wealth. But the greater this reserve-army in proportion to the active labour-army, the greater is the mass of a consolidated surplus population... The more extensive, finally,...the industrial reserve army, the greater is official pauperism. *This is the absolute general law of capitalist accumulation*'. (Italics Marx's.) Marx , op. cit., note 1, I, p. 664.
35. Thus, von Mises writes that Marx tried to demonstrate the inevitability of socialism 'by the famous prognostication that capitalism generates necessarily and unavoidably, a progressive impoverishment of the masses of the wage earners. The more capitalism develops', he says, the more 'grows the mass of misery, oppression, slavery, exploitation. With "the progress of industry" the worker "sinks deeper and deeper", until finally, when his sufferings become unbearable, the exploited masses revolt and establish the everlasting bliss of socialism'.

    But von Mises then points out, this crucial argument 'contradicts the whole Marxian theory of the determination of wage rates...[T]his theory asserts that wage rates are under capitalism always and necessarily so low that for physiological reasons they cannot drop any further without wiping out the whole class of wage earners. How is it then possible that capitalism brings forth a progressive impoverishment of the wage earners? Marx in his prediction of the progressive impoverishment of the masses contradicted the essential teachings of his own theory'. Von Mises, op. cit., note 8, pp. 150–51.
36. In a remarkably frenetic and unconvincing whirl of Marxian apologetics, Professor Sowell tries to absolve Marx of this contradiction by denying *both* parts: the Marxian adherence to the iron law of wages, *and* the progressive impoverishment of the working class. On the former, Sowell latches on to anti-Lassalle mutterings by Engels in a footnote, and in correspondence between Marx and Engels, and then comes up with a spectacularly original definition of 'subsistence' which implies not a bare minimum existence, but a rising standard of living! On progressive impoverishment, he dismisses this concept as early *Communist Manifesto* Marx, rejected by the mature Marx of *Capital*, and he clings for support to the Marxist–Leninist economist Ronald Meek. To defend this absurd interpretation, Sowell is forced to write off embarrassingly pro-impoverishment passages in *Capital*, such as we have seen above, as 'lurid' remarks applying only to *particular* groups of workers, and to conveniently ignore the peroration chapter of *Capital*. Sowell, op. cit., note 18, pp. 128–31. Marx also took the impoverishment line in his *Value, Price and Profit* (1865). Cf. North, op. cit., note 14, pp. 140–41.
37. 'Owing to the extensive use of machinery and to division of labour, the...[workman] becomes an appendage of the machine, and it is only the most simple, most monotonous, and most easily acquired knack, that is required of him. Hence, the cost of production of a workman is restricted, almost entirely, to the means of subsistence that he requires for his maintenance, and for the propagation of his race.' Tucker, op. cit., note 7, p. 479.
38. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), p. 686n. Many Marxists have claimed, at the least, that the standard for life of the English workers fell at the advent of the Industrial Revolution, say from the middle or late eighteenth century to the mid-nineteenth, but the scholarship of R. Max Hartwell and others have well disposed of this Marxian charge.
39. Cf. Conway, op. cit., note 3, p. 132.
40. Schumpeter, who generally treats Marx excessively gently, pours proper scorn on the relative impoverishment theorists: 'Still other interpreters have made efforts to make Marx's law mean relative misery only, i.e. a fall in the relative share of labor, which, besides being equally untenable, clearly violates Marx's meaning.' Schumpeter, op. cit.,

note 38, p. 686n. On absolute impoverishment, also see M.M. Bober, *Karl Marx's Interpretation of History* (2nd ed., Cambridge Mass.: Harvard University Press, 1948), pp. 213–21.

41. Von Mises, op. cit., note 31, pp. 381–4. As von Mises points out, it is at least equally likely that envy of the workers is aroused by an *increase* in egalitarianism and in their relative status, thus causing greater irritation at a gap that is now *smaller*.
42. Cf. Conway, op. cit., note 3, p. 133.
43. See Gottfried Haberler, 'Marxist Economics in Retrospect and Prospect', in M. Drachkovitch (ed.), *Marxist Ideology in the Contemporary World – Its Appeals and Paradoxes* (Hoover Institution, New York: Praeger, 1966), pp. 118, 183.
44. 'If judged by the amount of space it receives, and especially by the persistently repeated references to it early and late in his and Engels' writings, the underconsumption theory seems to dominate over the other theories.' Bober, op. cit., note 40, p. 232. We are indebted to Bober for his classic discussion of Marx's cycle theories, in *ibid.*, pp. 232–57.
45. Thus, Marx in *Theories of Surplus Value*: 'Overproduction has specifically for its condition the general law of the production of capital...while on the other side the mass of producers remains restricted – and on the basis of the capitalist system of production must remain restricted – to an average quantum of wants.' See Bober, op. cit., note 40, p. 240. Also see Tucker, op. cit., note 7, pp. 443–65. It is significant that passages setting forth underconsumption theory in Chapter XVII of the *Theories of Surplus Value* are the *only* discussion of crisis theory in Tucker's *Reader*. In the headnote to the selections, Professor Thomas Ferguson, after pointing out that Marx, curiously, 'left no developed account of his views on crises', adds that Chapter XVII of *Theories* 'contains the best and most systematic discussion by Marx on economic crises'. Tucker, p. 443.
46. Astonishingly, Sowell maintains not only that there is no trace of underconsumptionism in Marx, but that those who assert it only cite each other, not Marx himself. He has, for one thing, apparently never heard of Bober's standard work. Sowell, op. cit., note 18, pp. 78–9, 85–8.
47. Marx and Engels also felt the need to separate themselves as much as they could from straight underconsumption, in view of the fact that two of their great German rivals and opponents were ardent underconsumptionists. These were the Prussian aristocrat and evolutionary state socialist Johann Karl Rodbertus (1805–75), and the University of Berlin economist and social reformer Eugen Karl Dühring (1833–1921).
48. Engels, 'Preface to the English Edition', in Marx, op. cit., note 1, I, p. 6.
49. For a further critique of underconsumptionism, see Murray N. Rothbard, *America's Great Depression* (4th ed., New York: Richardson & Snyder, 1983), pp. 55–8.
50. Bober, op. cit., note 40, pp. 251–2.
51. Mikhail Ivanovich Tugan-Baranowsky (1865–1919). Strictly speaking, Tugan-Baranowsky was a Ukrainian who taught in Russia's St Petersburg. He first enunciated his business cycle theory in his doctoral dissertation, 'The Industrial Crises in England', published in Russian in 1894. Tugan-Baranowsky taught political economy at St Petersburg until 1917, when he became minister of finance and general secretary of the Central Rada of the Ukraine. The following year, Tugan-Baranowsky became head of the Ukrainian Academy's socio-economic department and of its Institute for the Study of Economic Cycles. At his death in 1919, Tugan was economic adviser to the Ukrainian delegation at Versailles. See Sergio Amato, 'Tugan-Baranowsky...' in I.S. Koropeckyj (ed.), *Selected Contributions of Ukrainian Scholars to Economics* (Cambridge, Mass.: Harvard University Press, 1984), pp. 1–59. On non-monetary over-investment cycle theories, see Gottfried Haberler, *Prosperity and Depression* (4th ed., Cambridge, Mass.: Harvard University Press, 1958), pp. 72–85. Amato maintains that the German economist Arthur Spiethoff (1873–1957), who launched his own version of the cycle theory in 1902–3, purloined it from Tugan-Baranowsky's German translation in 1901, then claimed it as his own original discovery. Amato, 'Tugan-Baranowsky', p. 6.
52. See Bober, op. cit., note 40, p. 275. Sowell, on the other hand, claims that Marx held money and credit to be the sole cause of the business cycle. Sowell, op. cit., note 18, pp. 92–5.

53. Indeed, Marx's entire theory of money was profoundly influenced by Thomas Tooke and the banking school. Marx believed, with Tooke, that changes in price levels determined changes in the quantity of money and not *vice versa*, and that balance of payments deficits were determined by real rather than monetary factors. Hence, in his theory of money and its effects, Marx was the opposite of a Ricardian. See Arie Arnon, 'Marx's Theory of Money: the Formative Years', *History of Political Economy*, 16 (Winter 1984), pp. 560–75.

14 After Mill: Bastiat and the French *laissez-faire* tradition

14.1 The French *laissez-faire* school

John Stuart Mill's conquest of British economics by his 1848 treatise, *The Principles of Political Economy*, succeeded in imposing a miasma upon British economics for at least a quarter-century. In some respects, indeed, the subjectivist (or, in its trivialized label, the 'marginalist') revolution against Mill, led abortively by Jevons in the 1870s, never really took hold in Great Britain. The Millian miasma imposed a vague and incoherent adhesion to the labour theory, or at best the cost-of-production theory, of value; to the methodology of positivism, tempered by a confused inductivism; to individualism, muddled by organicism; to a vague, tentative preference for the free market easily overridden by almost any objection, in particular the alleged ability of labour unions to win general wage increases as well as the supposed moral superiority of socialism. Politically, in short, Mill was cleverly positioned to be the patron saint of *laissez-faire* as well of virtually any and all attacks against it – in short, to be the philosopher of the British *status quo* as it existed or as it might become. At the same time, Mill became the modern liberal intellectual's favourite straw-man champion of *laissez-faire*, ever ready to make the most damaging concessions to his modern liberal opponents. In that way, the modern liberal intellectual can sound the triumphal note: 'But even *Mill* admits...' and thus expect to win the day by the invocation of authority alone.

In monetary and banking affairs, indeed, Mill was the guru for precisely the *status quo* as imposed by the Peel Act of 1844 and continuing until World War I: that is, a broad commitment to hard money in the form of the gold standard, but cleverly and fundamentally vitiated by a Bank of England monopoly control of a fractional-reserve banking system that could readily inflate money and credit within that allegedly sound system.

Although of all countries, British economics in the nineteenth century (and down through World War II) managed to accrue the greatest prestige, it was not able to exercise total hegemony over economics abroad. In France, in particular, the legacy of J.B. Say led, in dramatic contrast, to a subjective utility and consistent *laissez-faire* tradition that managed to retain dominance over French economics for nearly a century. We have seen that French *laissez-faire* economics was established in the Restoration period after 1815 by a brilliant group of young economists and social theorists inspired by J.B. Say, and headed by Charles Dunoyer and by Say's son-in-law Charles Comte. Although Comte died in middle age, Dunoyer lived long enough to write his three-volume *magnum opus, De la liberté du Travail* (*On the Freedom of Labour*), (1845), and to preside over the founding, in 1842, of the leading Société d'Économie Politique (The Society of Political Economy), which would meet monthly for decades, as well as its scholarly journal, the *Journal des Économistes*, which had been launched a few months before the society.

From then until World War I, an admirable and productive cadre of economists staffed the main French academic posts, edited and wrote for numerous scholarly journals, formed associations and conferences, and wrote and lectured indefatigably on behalf of harmony of interests and general prosperity through free markets, free trade, and *laissez-faire*. It is remarkable that at least three generations of French economists were schooled in, and carried on and developed, this *laissez-faire* tradition. Despite generations of changing fashions and enormous temptations from the side of statism and special privilege, French economists, for nearly a century, stuck to their guns and remained stalwart champions of *laissez-faire* and enemies of state intervention and special privilege.

Here we might pay special attention to the men who collaborated on the first encyclopedia of economics, an excellent two-volume work, *Dictionnaire d'Économie Politique* (Paris: Guillaumin, 1852–53), co-edited and published by Gilbert Guillaumin (1801–64), an indefatigable publisher of countless French economic and *laissez-faire* works during the nineteenth century. The co-editor Charles Coquelin (1805–52), himself a major contributor to the dictionary, unfortunately died shortly before publication. The dictionary went through four printings. Another leading light of the dictionary, and founding secretary of the Société d'Économie Politique, was Joseph Garnier (Clément Joseph Garnier, 1813–81), for some years editor-in-chief of the *Journal des Économistes*, and author of several highly successful textbook treatises in economics including: *Éléments d'économie politique (1845* – many editions), and *Éléments des Finances* (1858 – many editions).

French *laissez-faire* economists pioneered, not only encyclopedias of economics, but also the study of the history of the discipline. The first history of economic thought was the *Histoire de l'économie politique en Europe* (1837, 4th edition, 1860, English translation, *History of Political Economy in Europe* 1880), by Jérome-Adolphe Blanqui (1798–1854), who studied political economy under Say, and succeeded him as professor. Blanqui was also for many years editor-in-chief of the *Journal des Économistes*. Joseph Garnier had been Blanqui's student. Blanqui, in turn, was the son-in-law of Michel Chevalier (1806–79). An engineer and Saint-Simonian socialist in his youth, Chevalier became a *laissez-faire* liberal, becoming professor of political economy at the Collège de France, and publishing the three-volume *Cours d'Économie Politique* (1842–50). Chevalier was also a statesman, negotiating the famous fee trade treaty with England (England being represented by the great Richard Cobden) in 1860, a high-water mark of the free trade and free market movement in nineteenth century Europe. Another prominent student of Chevalier was Henri (Joseph Léon) Baudrillart (1821–92), who went on to teach political economy at the Collège de France, and whose *Manuel d'Économie Politique* was published in 1857, and went into numerous editions.