

# 2.8 – The Marxist Challenge

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# Outline

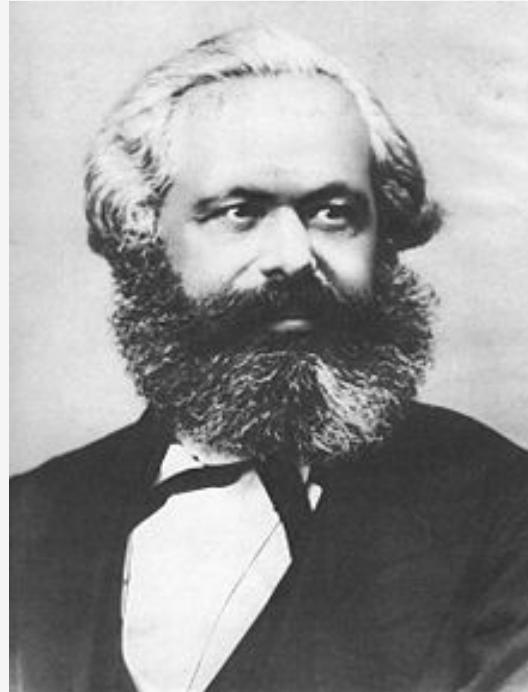


Background Events: Reform and Revolution

Marx's Methodology and Theory of History.

Marx's Economic Analysis of Capitalism

# Karl Marx

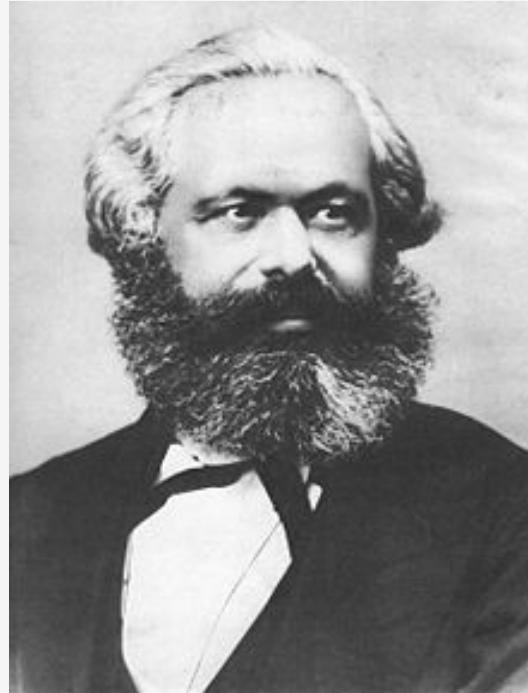


Karl Marx

1818-1883

- Perhaps the most consequential thinker who ever lived; testament to the real world power of ideas
- A historian and philosopher (Ph.D in philosophy); journalist in early days
- Born and educated in Prussia (Germany), but his radical views got him kicked out of the country
  - Same in Paris and Brussels
  - Finally settled in London for rest of his life, working in British Museum

# Karl Marx



- A philosopher and historian first, an economist only as a means to those ends
- Partisan advocate but made some objective contributions
- Wrote primarily about the flaws of capitalism, very little on how the economics of a socialist or communist society would (or should) work

Karl Marx

1818-1883

# Friedrich Engels



Friedrich Engels

1820-1895

- Prussian born businessman and journalist in Britain
- Father owned large textile factories in Manchester, England
- Published *The Condition of the Working Class in England* (1845) based on his personal observations
- Meets Marx, they write the *Communist Manifesto* together in 1848
- Engels would financially support Marx for the rest of his life using his (Engels's) father's factory profits

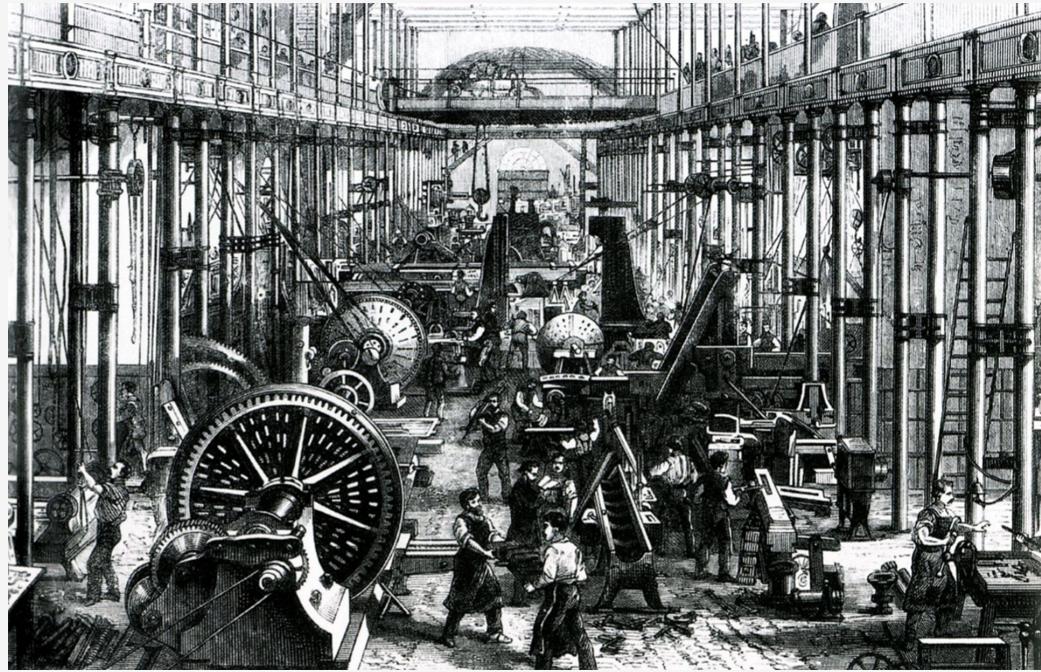


# Background Events: Reform and Revolution

# The Industrial Revolution in Britain



- **Industrial revolution** (c.1740s-c.1840) in England
  - major innovations and technological improvements:
  - steam power, coal, factory system, mechanization, railroads, mass production
- Countless ink has been spilled writing about the origins and explanation for why the IR happened in Britain in 19<sup>th</sup> century



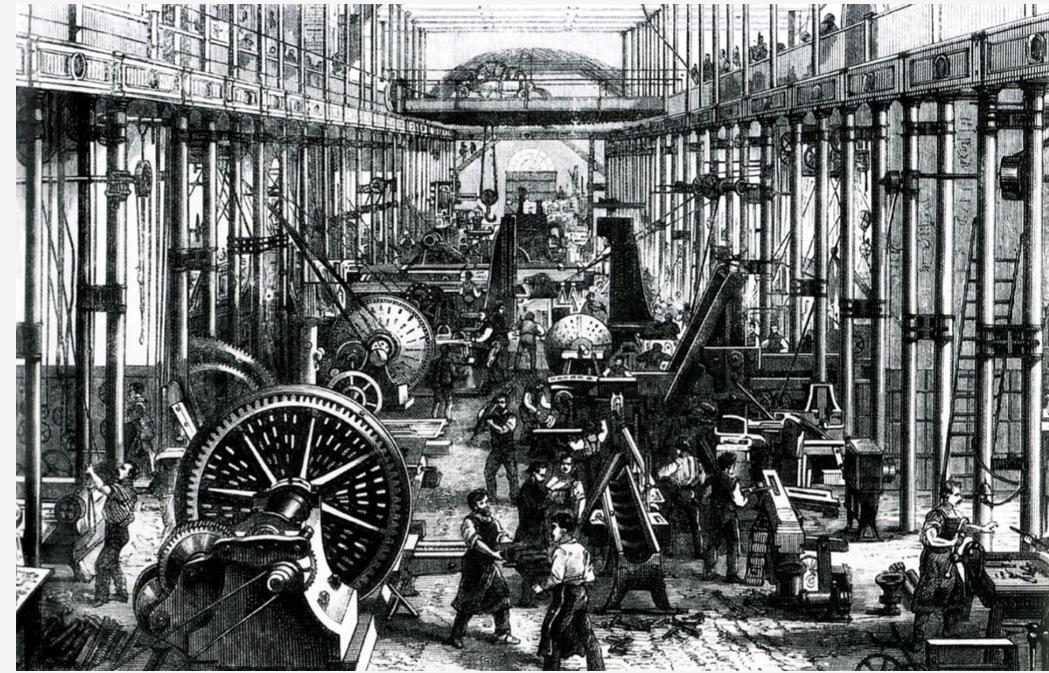
# The Industrial Revolution in Britain



# The Industrial Revolution in Britain: Living Standards



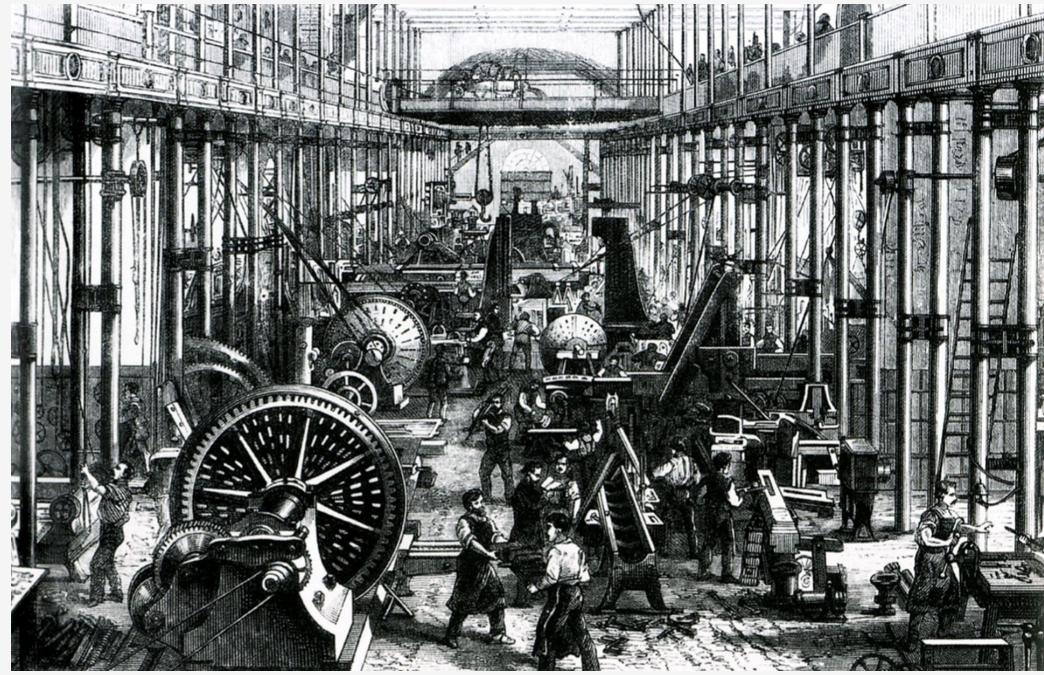
- The benefits of the IR were far from widely shared for a long time
- Working conditions were very poor (“the condition of England question”)
  - child labor
  - urban poverty, disease, pollution & squalor as many people moved from countryside to cities



# The Industrial Revolution in Britain: Living Standards



- Eventually, wages and living standards would *continually rise* for *most* people, for the first time in human history
  - Classical economists thought this was impossible!
- Benefits *would* be widely shared in late 19<sup>th</sup> century
  - Massive declines in malnutrition, childhood mortality, increase in life expectancy in Britain
  - British people grew taller than others



# The Industrial Revolution in Britain: “Engels’ Pause”



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## Engels' pause: Technical change, capital accumulation, and inequality in the british industrial revolution

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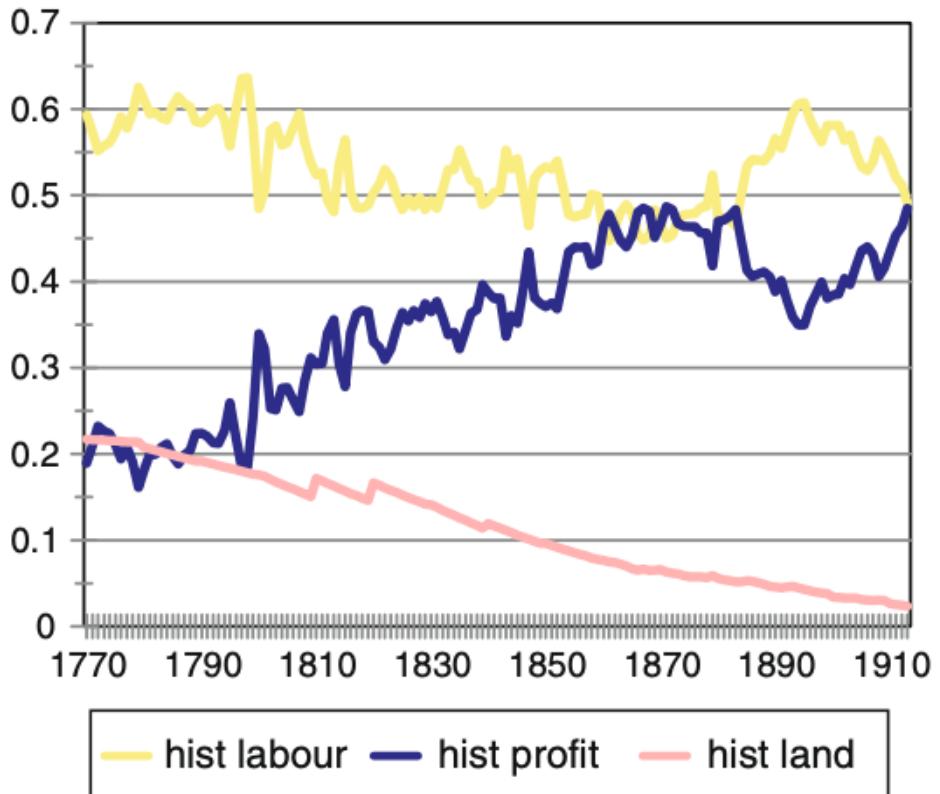
Savings

Investment

### ABSTRACT

The paper reviews the macroeconomic data describing the British economy from 1760 to 1913 and shows that it passed through a two stage evolution of inequality. In the first half of the 19th century, the real wage stagnated while output per worker expanded. The profit rate doubled and the share of profits in national income expanded at the expense of labour and land. After the middle of the 19th century, real wages began to grow in line with productivity, and the profit rate and factor shares stabilized. An integrated model of growth and distribution is developed to explain these trends. The model includes an aggregate production function that explains the distribution of income, while a savings function in which savings depended on property income governs accumulation. Simulations with the model show that technical progress was the prime mover behind the industrial revolution. Capital accumulation was a necessary complement. The surge in inequality was intrinsic to the growth process: technical change increased the demand for capital and raised the profit

# The Industrial Revolution in Britain: “Engels’ Pause”



Allen,  
Robert C,  
2009,  
“Engels’  
pause:  
Technical  
change,  
capital

# The Industrial Revolution in Britain: “Engels’ Pause”



“First, inequality rose substantially in the first four decades of the 19th century. The share of capital income expanded at the expense of both land and labour income. The average real wage stagnated, while the rate of profit doubled. Second, these trends can be explained without reference to contingent events like the Napoleonic Wars or the settlement of the American West...Third...the explanation of growth cannot be separated from the discussion of inequality since each influenced the other. In the first instance, it was the acceleration of productivity growth that led to the rise in inequality. Reciprocally, it was the rising share of profits that induced the savings that met the demand for capital and allowed output to expand.”

Allen, Robert C, 2009, “Engels’ pause: Technical change, capital accumulation, and inequality in the british industrial revolution,” *Explorations in Economic History* 46: 418-435

# The Industrial Revolution in Britain: “Engels’ Pause”



“[W]e can outline the story of the industrial revolution as follows: the prime mover was technical progress beginning with the famous inventions of the 18th century including mechanical spinning, coke smelting, iron puddling, and the steam engine. It was only after 1800 that the revolutionized industries were large enough to affect the national economy. Their impact was reinforced by a supporting boost from rising agricultural productivity and further inventions like the power loom, the railroad, and the application of steam power more generally...The adoption of these inventions led to a rise in demand for capital – for cities, housing, and infrastructure as well as for plant and equipment. Consequently, the rate of return rose and pushed up the share of profits in national income. With more income, capitalists saved more, but the response was limited, the capital-labour ratio rose only modestly, the urban environment suffered as cities were built on the cheap, and the purchasing power of wages stagnated...Real wages rising in line with the growth of labour productivity was not a viable option since income had to shift in favour of property owners in order for their savings to rise enough to allow the economy to take advantage of the new productivity raising methods. Hence, the upward leap in inequality.”

Allen, Robert C, 2009, “Engels’ pause: Technical change, capital accumulation, and inequality in the british industrial revolution,” *Explorations in Economic History* 46: 418-435

# The Industrial Revolution in Britain: “Engels’ Pause”



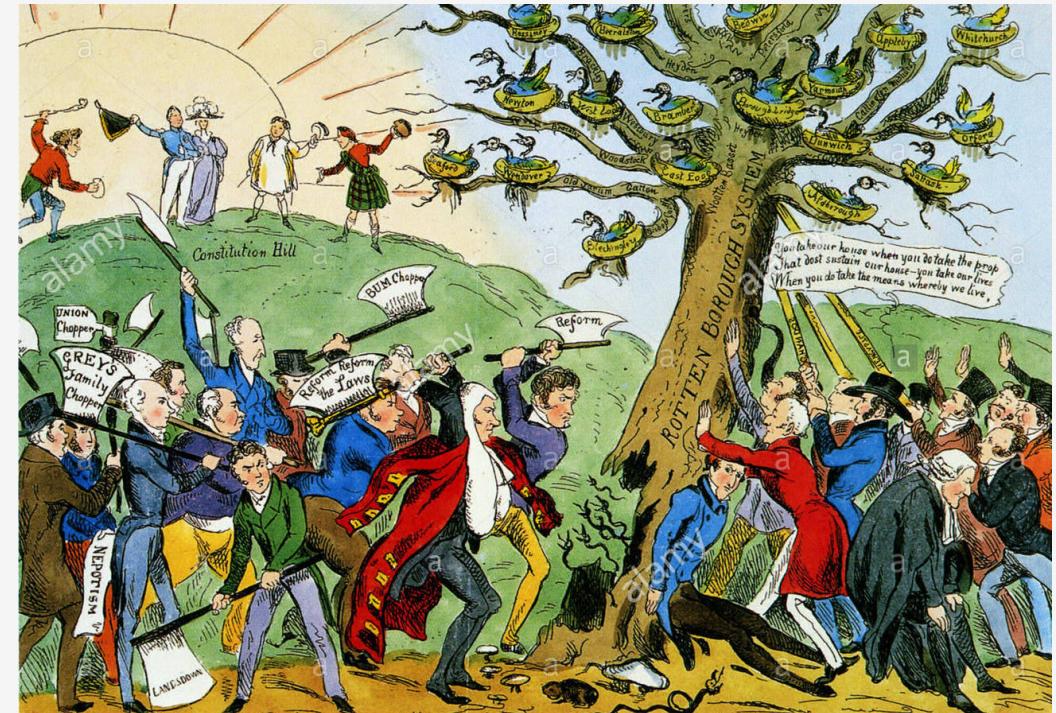
“The rise in inequality, however, had ramifications that made it self-extinguishing. The increase in profits induced enough capital formation by the middle of the 19th century for the economy to realize a balanced growth path with capital and augmented labour growing at the same rate. Under this condition, the real wage grew in line with productivity...productivity growth and capital accumulation were principally responsible for the rise in working class living standards after 1850, just as they had been responsible for their stagnation in the first half of the 19th century. Even sustained, rapid population growth was not enough to prevent labour incomes from rising once the accumulation conditions were right.”

Allen, Robert C, 2009, “Engels’ pause: Technical change, capital accumulation, and inequality in the british industrial revolution,” *Explorations in Economic History* 46: 418-435

# The Great Reform Acts



- Parliament had elections, but not competitive, full of “pocket and rotten boroughs”
- Parliamentary constituencies were fixed centuries before!
- Industrial revolution primarily occurring in Manchester, Liverpool, Lancaster
  - these cities had no seats in Parliament!
  - Parliament still dominated by large landowners (the aristocracy)



# The Great Reforms



- 1830s a great period of reform in Parliament
- 1832 Great Reform Act
  - abolished tiny districts, gave seats to cities
  - Extends the franchise: all males owning/leasing £10 of property
  - a big change in the right direction (compared to before!)



# The Great Reforms



- Rising **Chartist movement** in 1830s-1850s, demands of the people for universal (male) suffrage and electoral reform
- “The People’s Charter” gathered millions of signatures with objectives:
  - Universal adult male suffrage
  - Secret ballot
  - No property qualifications for MPs
  - Salary for MPs
  - Equal constituencies
  - Annual elections
- Led to protests, riots, clashes with authorities, anti-monarchy conspiracies
  - mild compared to what was happening in Europe at this time!



# The Great Reforms



- Gradually, great reforms took place in Parliament over the latter half of 19<sup>th</sup> century
- Reform Acts 1867, 1884 – extends franchise to most male urban workers and then country farmers
- Reform Acts 1918, 1928 - removes property requirements to vote, extends franchise to women
- Other key changes
  - *Married Women's Property Act 1882*
  - Repeal of Corn Laws (1848)
  - Slavery Abolition Act (1833)
- Rise of competitive elections, mass political parties (Liberal and Conservative/Tory)



# Meanwhile, in the Rest of Europe



# “The Spring of Nations”



- **Revolutions of 1848:** largest widespread revolution in European history
  - goals to overthrow oppressive monarchy and enact liberal democracies
  - upsurge of nationalism in each country; populism & liberalism against monarchy and conservatism
- Primarily in France, “Germany”, Austrian Empire, and Italy



# **“The Spring of Nations”**



# The Revolutions of 1848: France



- France overthrows King Louis Philippe I
- Creates Second French Republic, elects President Charles-Louis Napoleon
- 3 years later, stages a coup and declares himself Emperor Napoleon III



# The Revolutions of 1848: Austrian Empire



- In Austria, Czechs and Hungarians (among many others) revolt for national independence
- Revolts were suppressed by conservative monarchists
- But did get some reforms: end of serfdom (finally)
- Will eventually lead to joint Austria-Hungary monarchy, and more autonomy for Bohemia (Czechs)



The Battle of Buda

# The Revolutions of 1848: German States



- In German states, “pan-German” nationalism
- Rise against the oppressive monarchies
  - New middle class: liberalism
  - Working class/peasants: sought improvement in working conditions
  - Both classes split, and were suppressed by the conservative aristocracy; liberals forced into exile
- Conservative backlash in (rising) Prussia
  - Rising German nationalism will bring German Unification under a militaristic, dominant (conservative) Prussia



# Against this Backdrop: Communism!



Karl Marx (1818-1883)

Friedrich Engels (1820-1895)

"A spectre is haunting Europe – the spectre of communism. All the powers of old Europe have entered into a holy alliance to exorcise this spectre: Pope and Tsar, Metternich and Guizot, French Radicals and German police-spies. Where is the party in opposition that has not been decried as communistic by its opponents in power? Where is the opposition that has not hurled back the branding reproach of communism, against the more advanced opposition parties, as well as against its reactionary adversaries? ... It is high time that Communists should openly, in the face of the whole world, publish their views, their aims, their tendencies, and meet this nursery tale of the Spectre of Communism with a manifesto of the party itself," (Preamble).

# Marxian -Socialism: Motivating Ideals I



Karl Marx (1818-1883)

Friedrich Engels (1820-1895)

"The history of all hitherto existing society is the **history of class struggles**."

"In the earlier epochs of history, we find almost everywhere a complicated arrangement of society into various orders, a manifold gradation of social rank. In ancient Rome we have patricians, knights, plebeians, slaves; in the Middle Ages, feudal lords, vassals, guild-masters, journeymen, apprentices, serfs; in almost all of these classes, again, subordinate gradations."

"Our epoch, the epoch of the bourgeoisie, possesses, however, this distinct feature: it has simplified class antagonisms. Society as a whole is more and more splitting up into two great hostile camps, into two great classes directly facing each other — **Bourgeoisie** and **Proletariat**," (Bourgeois and Proletarians)

Marx, Karl and Friedrich Engels, 1848, *[Manifesto of the Communist Party](#)*.

# Marxian -Socialism: Motivating Ideals II



Karl Marx (1818-1883)

Friedrich Engels (1820-1895)

"In the national struggles of the proletarians of the different countries, [the Communists] point out and bring to the front the common interests of the entire proletariat, independently of all nationality. [In] the various stages of development which the struggle of the working class against the bourgeoisie has to pass through, they always and everywhere represent the interests of the movement as a whole."

"The immediate aim of the Communists is the same as that of all other proletarian parties: formation of the proletariat into a class, overthrow of the bourgeois supremacy, conquest of political power by the proletariat."

"In this sense, the theory of the Communists may be summed up in the single sentence: **Abolition of private property**, (Proletarians and Communists)

Marx, Karl and Friedrich Engels, 1848, *Manifesto of the Communist Party*.

# Marxian-Socialism: Motivating Ideals III



Karl Marx (1818-1883)

Friedrich Engels (1820-1895)

"The Socialist and Communist systems, properly so called, those of Saint-Simon, Fourier, Owen, and others, spring into existence in the early undeveloped period, described above, of the struggle between proletariat and bourgeoisie."

"The undeveloped state of the class struggle, as well as their own surroundings, causes Socialists of this kind to consider themselves far superior to all class antagonisms. They want to improve the condition of every member of society, even that of the most favoured. Hence, they habitually appeal to society at large, without the distinction of class; nay, by preference, to the ruling class."

"Hence, they reject all political, and especially all revolutionary action; they wish to attain their ends by peaceful means, necessarily doomed to failure, and by the force of example, to pave the way for the new social Gospel."

"Such fantastic pictures of future society, painted at a time when the proletariat is still in a very undeveloped state and has but a fantastic conception of its own position...are of a purely Utopian character," (Socialist and Communist Literature)



# Marx's Methodology and Theory of History

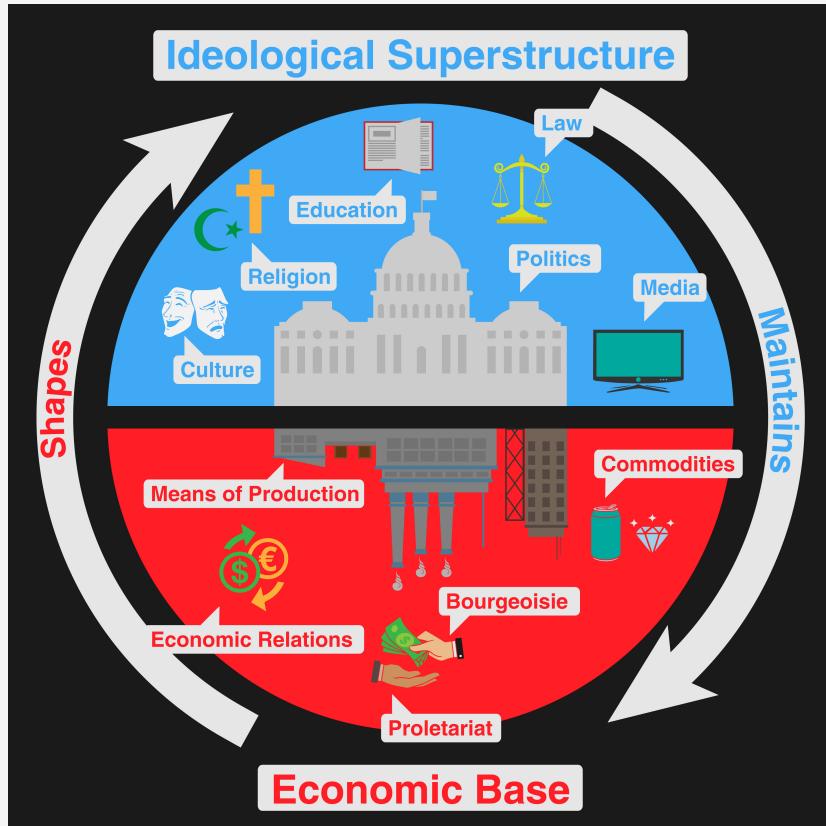
# *Marxian*-Socialism: Methodology



- Marxian analysis is done through Hegelian **dialectic**
  - A thesis
  - An antithesis
  - A synthesis from contestation of thesis vs. antithesis
  - Cycle repeats

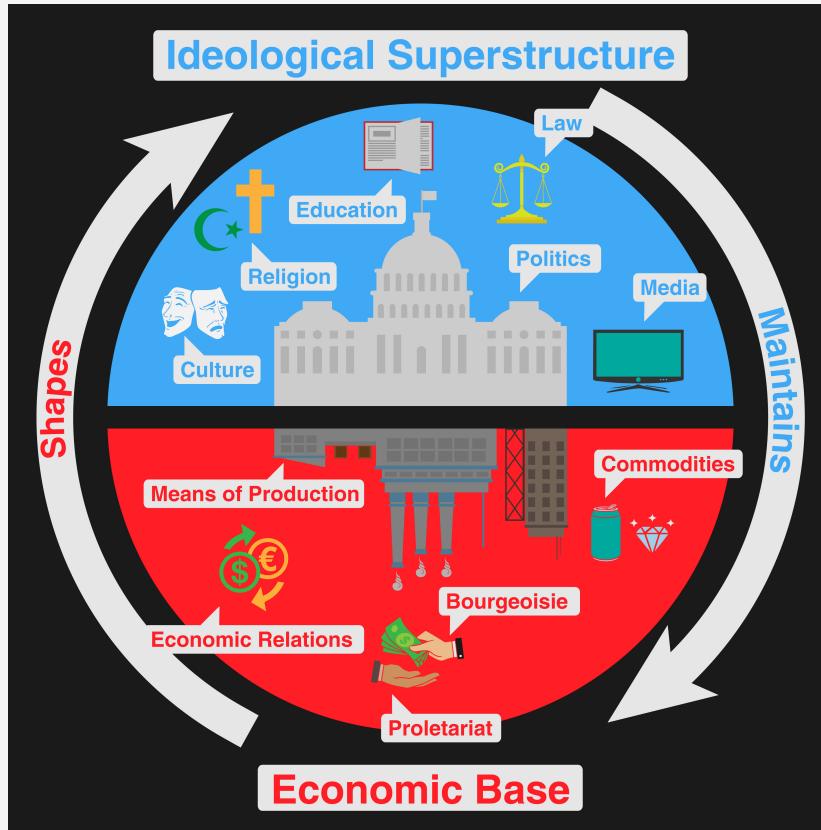
Georg Wilhelm Friedrich  
Hegel

# Marxian-Socialism: Methodology II



- Marx's **materialist dialectic**
- History of the world is pre-determined by produce of material (economic) forces
  - **Base:** determined by what social class controls the **modes of production (MOP)**
  - Creates the **superstructure** of institutions (ideas, culture, religion, politics, the State) to reinforce class relations

# Marxian-Socialism: Methodology III



- Historical materialism:
- **Primitive communism:** hunter-gatherers with no social classes
- **Ancient MOP:** Citizens > Slaves
- **Feudal MOP:** Nobility > Serfs & Bourgeoisie
- **Capitalist MOP:** Bourgeoisie > Proletariat
- **Communist MOP:** Proletariat ushers in classless, stateless, society

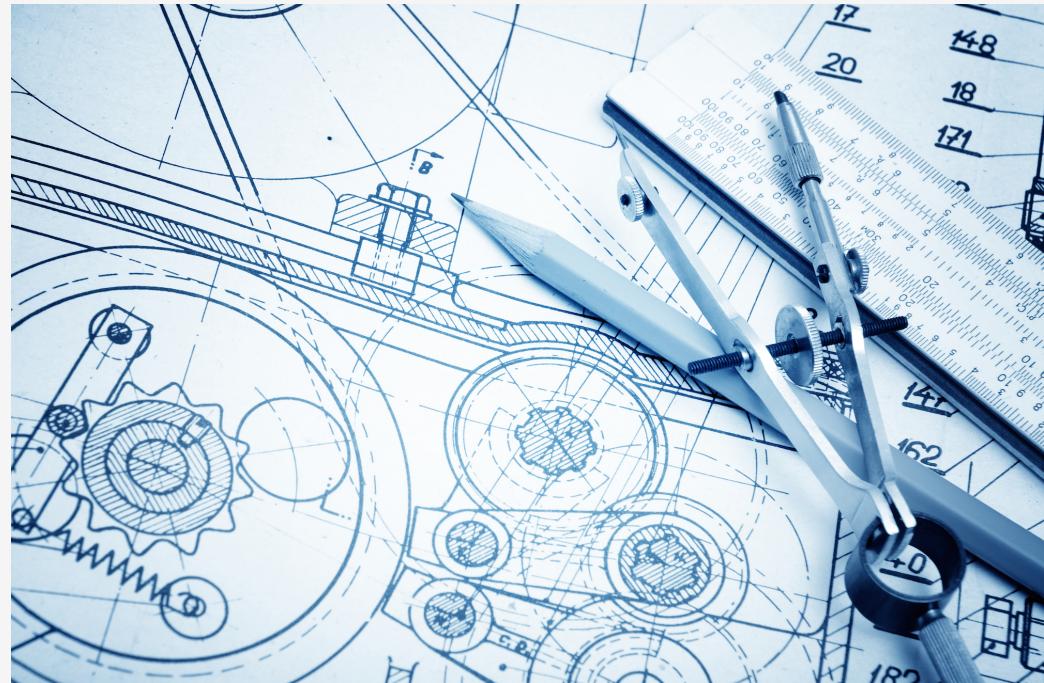
# Capitalism and Socialism I



# Capitalism and Socialism II



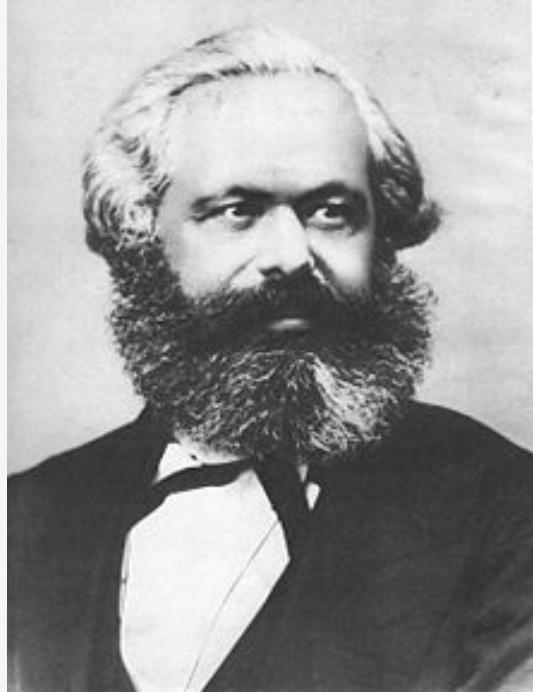
- Capitalism (to Marxists) is unplanned "anarchy of production," *ex ante* social disharmony
- Socialism will *rationalize* economy by centrally planning towards a harmonized pre-coordinated plan to achieve greater "advanced material production" than capitalism



# Capitalism and Socialism III



1



Karl Marx  
(1818-1883)

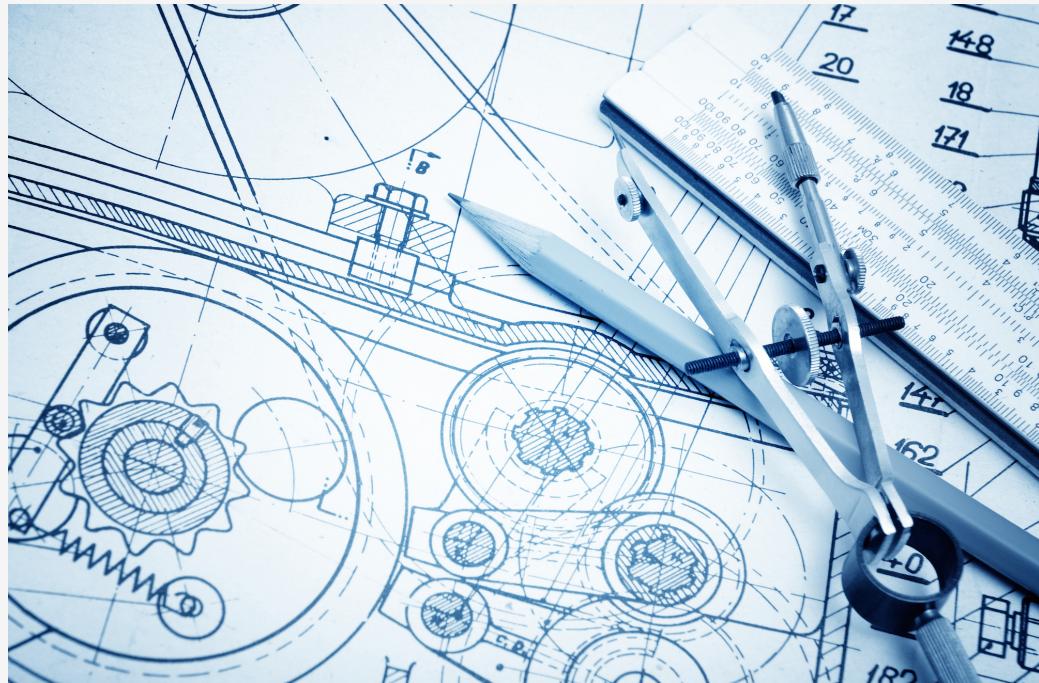
The life-process of society, which is based on the process of material production, does not strip off its mystical veil until it is treated as production by freely associated men, and is **consciously regulated by them in accordance with a settled plan**, (p.92),<sup>1</sup>

"The positive **transcendence of private property** as the appropriation of human life, is therefore the positive transcendence of all estrangement - that is to say, the return of man from religion, family, state, etc., to his human, i.e. social existence," (p.97).<sup>2</sup>

# Capitalism and Socialism III



- Marxist dialectic: socialism = negation of capitalism and emerges from its problems:
- Alienates workers from their labor by capitalists who profit from "surplus value"
- Proceeds to monopoly through accumulation of capital amidst a declining rate of profit



<sup>1</sup> Lenin, Vladimir, 1917, *Imperialism: The Highest Stage of Capitalism*  
• Crisis of overproduction and a "reserve army of the unemployed" (business



# Marx's Economic Analysis of Capitalism