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PARADOX LOST: KARL MARX

The classical school had become the orthodoxy. Like governments, or even economic systems, for that matter, orthodoxies are sometimes overthrown. Revolution is, however, a daunting undertaking; by definition orthodoxy has society generally on its side. Still, every science has its radical fringe, made up of those who are discontented with the orthodoxy or with society. By now, it had long been forgotten that Adam Smith was a radical in this own time. Although John Stuart Mill helped to gain recognition for the trade union movement in England and bring about tax reforms, his *Principles* served only to strengthen the classical orthodoxy, which after Ricardo and Malthus already was a powerful thing.

We must look elsewhere and beyond Mill for truly radical ideas, where better than for the most renowned radical of all, Karl Marx (1818–83). J. S. Mill’s contemporary built an alternative and more complete system on classical foundations. Though Marxian economics was immediately repulsed in England and most of the United States, his ideas were to become enormously influential, ultimately dividing the global system between capitalist and socialist nations.

Marx, the enigma, was perhaps designed to be misunderstood from the beginning. Although his first career was as a libertarian journalist inveighing against the ruling Prussian Kaiser, Marx became notorious in the United States and England because Joseph Stalin, a brutal dictator, claimed “Marxist philosophy” as the cover for Stalinism. Perhaps predictably, some of today’s most orthodox economists contend that with the breakup of the Soviet Union, a capitalist utopia rose from the ashes of communism.

MARX AND HIS SOULMATE, ENGELS

Marx was born in Trier, in the German Rhineland of the Prussian kingdom, where his father was a lawyer, a member of the bourgeoisie or the capitalistic middle class so detested later by “Marxists.” He grew up in a more or less liberal, intellectual atmosphere and intended to have an academic career, but political events made that impossible. He turned to journalism and became increasingly outspoken in his denunciation of political oppression in Europe, for which he was eventually exiled to England, the home of the orthodoxy. Marx’s name is always linked with Friedrich Engels (1820–95), a fellow German, a lifelong associate, and an unlikely collaborator. Their backgrounds and personalities contrast sharply. Engels is the better writer whereas Marx is the more profound thinker, a meticulous, somewhat ponderous scholar with less gift for rhetoric.

Engels was an upper-middle-class capitalist, rather handsome and athletic, tall and thin with bright blue eyes — the figure of a man who liked to fence and to ride with the hounds — and with a taste for wine and working-class women, especially an Irish lass named Mary Burns. Engels had a natural gaiety and an enthusiasm for literature and music. He especially liked the poetry of Percy Bysshe Shelley (1792–1822) for its attack on orthodox Christianity and secular tyranny. Whereas David Ricardo was *unsympathetic* with Shelley’s attack on commerce as “the venal interchange,” Engels could embrace still more from Shelley’s *Queen Mab* (1813), such as

Power, like a desolating pestilence,
Pollutes whate’er it touches; and obedience,
Bane of all genius, virtue, freedom, truth,
Makes slaves of men, and, of the human frame,
A mechanized automation.¹

Engels read Shelley for both pleasure and pain.

¹ Percy Bysshe Shelley, “Queen Mab,” in George Edward Woodberry, editor, *The Complete Poetical Works of Shelley* (Boston: Houghton Mifflin, Cambridge edition, 1901).

The contrast between Engels and Marx could not have been greater. Marx had a head too large for his short, stocky frame, a flowing beard, and a stern look. He was gruff, slovenly, and given to brooding. His domestic life was a scene of almost continuous squalor, disorder, and poverty. Engels supported the Marx household financially from 1848 on.

Yet the two shared one thing: a detestation of the status quo and a fierce conviction that it must change. Engels's father sent Friedrich to Manchester, England, to work in the family textile business, Ermen and Engels. Engels was already a convert to socialist theory, and what he saw in Manchester confirmed his beliefs. He wrote what is still perhaps the strongest indictment of industrial slums ever written, a staggering description of hopeless filth, despair, and brutality.

In Engels's account of 1844, the reader can visualize the burial ground for the paupers, the Liverpool and Leeds railway station, and, high on a hilltop, the workhouse, or the "Poor-Law Bastille" of Manchester, looking down on the working quarters below. Here, as in most of the workingmen's quarters of Manchester,

the pork-raisers rent the courts and build pig-pens in them ... into which the inhabitants of the courts throw all refuse and offal, whence the swine grow fat; and the atmosphere, confined on all four sides, is utterly corrupted by putrefying animal and vegetable substances.²

Engels and Charles Dickens shared the same sources — the actual social conditions in and out of the factory. Like Dickens, Engels detected class distinctions whereby the paternalism of feudalism had been replaced by the paternalism of the factory owner. Dickens describes the relationship between Stephen Blackpool, the worker,

² Friedrich Engels, "Working-Class Manchester," extract from *The Condition of the Working Class in England in 1844*, in Robert C. Tucker, editor, *The Marx-Engels Reader*, 2nd Ed. (New York: W. W. Norton & Company, 1978), p. 583.

and Josiah Bounderby, his employer, in the following; “Stephen came out of the hot mill into the damp wind and cold wet street, haggard and worn ... turned from his own class and his own quarter, taking nothing but a little bread as he walked along, towards the hill on which his principal employer lived, ...”

Rather than a piece of bread, Mr. Bounderby was lunching on “chop and sherry.” Taking some sherry but offering none to his employee, Bounderby says condescendingly, “We have never had any difficulty with you, and you have never been one of the unreasonable ones. You don’t expect to be set up in a coach and six, and to be fed on turtle soup and venison, with a gold spoon, as a good many of ‘em do!”³

Engels witnessed pregnant working women, many ultimately becoming prostitutes, and children who went into the factories at the age of five or six (even Dickens was not put to work in a factory until the ripe old age of 12), receiving little care from mothers who were themselves at the factory all day and no education from a community looking only for the performance of simple, repetitive mechanical operations. Marx read Engels’s work and admired it, and their collaboration began, most infamously, with the *Communist Manifesto* of 1848.

Because of this work and his own dramatic actions, Marx is better known as a revolutionary than as a classical economist. In 1848, after all, it took courage to say, “Let the ruling classes tremble at a Communist revolution. The proletarians [workers] have nothing to lose but their chains. They have a world to win.” Prussia still believed in the divine right of kings and had no parliament, no freedom of speech, no right of assembly, no liberty of the press, and no trial by jury. Such despotism dominated most of the seats of power in Europe.

The *Manifesto* was part of the European revolutionary fervor of 1848. The work has had a long history, but its first and most

³ Charles Dickens, *Hard Times*, introduction by G. K. Chesterton (New York: E. P. Dutton, 1966), pp. 68–69.

immediate effect was on Marx's own fortunes: he was exiled from Belgium, where he had been living. On the next day, a long-awaited revolution broke out in Paris. The new French government invited Marx to come to Paris. Other great cities — Naples, Milan, Rome, Venice, Berlin, Vienna, Budapest — revolted. Europe was, for the moment, ablaze.

But only for the moment. By June 1848, the Paris revolt had nearly spent itself as the National Guard gained the upper hand. The cold water of the old order was thrown on the revolutionary fires throughout Europe, and they were put out. In July 1849, Marx was expelled from the Rhineland by the Prussian government. He then went to London, where he lived until his death in 1883. Despite his notoriety, the revolutionary actions of Marx filled only a short span of his life.

THE INFLUENCE OF HEGEL

Marx's revolutionary dissent began with his first encounter with the philosopher Georg Wilhelm Friedrich Hegel (1770–1831). Hegel's philosophy is almost absurdly difficult to understand, but its relevance to Marxism is at least fairly clear.

To Hegel and contrary to Descartes and the rationalists, matter and mind are intertwined. Economic, social, and political life is in a process of continual growth. After any one social institution gains power, it is challenged by another. Hegel explains this process by the dialectic: One fact (thesis) works against another fact (antithesis) to produce a wholly new fact (synthesis). For example, feudalism (thesis) encountered a new force, the market economy (antithesis), and the result of this encounter was an entirely new system, capitalism (synthesis). Properly understood, history is a dialectical progression.

However, humanity's progress toward self-realization is not smooth, for self-alienation can happen. In a sense, Marx turned Hegel inside out. Instead of seeing man as self-alienated, Marx saw organized religion as a reflection of self-alienated man. As Robert C. Tucker explains Marx's view, "religion is a phenomenon of

human self-estrangement”,⁴ a position failing to endear Marx in Christendom. Marx himself probably had little affection for the masses of people his system is supposed to free, unlike Charles Dickens, who practiced benevolence as well as writing about it. But Marx did see humans overcoming alienation by recognizing themselves as the proper objects of love, care, and worship.

Marx, devoted to reason, believed the course of history to be evolutions of entire social systems from lower (slavish) to higher (democratic and socialistic) forms. Instead of describing the struggle of individuals under natural laws, Marx describes a class struggle: One group overthrows another and thereby decides which economic system is to prevail. The landlords win under feudalism (as Ricardo understood quite well), the merchants under mercantilism, the capitalists under capitalism, and *everybody* under communism or socialism (these last two terms are used by Marx and Engels more or less interchangeably). Institutions such as organized religion slow the progress from lower to higher social orders, and the historical process could be speeded up by destroying them.

THE STING OF ECONOMIC ALIENATION

Marx saw in the relationship of human beings to their government a process of alienation similar to the one he perceived in religion. Humans hurl social power into a separate orbit, the state, which dominates them. Political alienation, however, is an institutional reality, and its resolution requires an actual social revolution, that is, a collective act in which the citizens reclaim the social power once tossed to the state.

The state is intertwined with and at times indistinguishable from the economic life of society, which is yet another sphere of human self-alienation. People, according to Marx, fail to develop

⁴ Robert C. Tucker, ed., *The Marx-Engels Reader* (New York: W. W. Norton & Co., 1972), p. xix.

their full human potential because of their slavish devotion to producing more and more goods for the marketplace. Eventually the “animal spirits” that drove people to the accumulation of profit would be exposed as simply a lower stage in human development.

Because of the intensity of alienation, of obscured self-realization, caused by the capitalist stage of economic development, when the middle-income class, or bourgeoisie (the Bounderbys) got the upper hand, it put an end to all feudal patriarchal, idyllic relations.

It has pitilessly torn asunder the motley feudal ties that bound man to his “natural superiors,” and has left remaining no other access between man and man than naked self-interest, than callous “cash payment.” It has drowned the most heavenly ecstasies of religious fervor, of chivalrous enthusiasm, of philistine sentimentalism, in the icy water of egotistical calculation. It has resolved personal worth into exchange value...⁵

Marx and Engels painted a definitive contemporary portrait of 19th century capitalism, an extension of man’s self-interest that he would grow to dislike, a stage of history alien to man and not the peak of civilization. The process of the self-development of humans will, according to Marx and Engels, culminate in communism.

THE MARXIAN ECONOMICS SYSTEM

Whereas Adam Smith was euphoric about an enduring industrialism and David Ricardo was fearful of its premature death because of the political strength of the landowners, Marx saw capitalism as only a necessary evil, to be superseded by a higher state where private property would not exist.

⁵ Karl Marx and Friedrich Engels, “The Communist Manifesto,” in Max Eastman, editor, *Capital, the Communist Manifesto, and Other Writings* (New York: Random House, 1932), p. 315.

Although agreeing with Ricardo about the value of a commodity being decided by the amount of labor time necessary for its production, Marx's devotion to a labor theory of value was complete. Moreover, for Marx, there is a difference between the labor value of a commodity and its exchange value.

The labor value of any commodity is equal to the amount of average labor time required for its production. The capitalist pays a price for labor — treating labor power as just another commodity — a subsistence wage just sufficient to keep the worker alive, at work, and able to reproduce the commodity. This wage rate, therefore, is the equivalent of one day's labor power as a commodity. (Marx defines the subsistence wage in various ways, sometimes culturally.)

But the capitalist defines himself by using capital (machinery) to produce goods, and therefore current labor will produce some amount of commodity value above its own value, an exchange value in excess of its labor value. Marx called the difference between the two *surplus value*, which is the source of the owner's profits. In today's economics terms, this surplus would be the sum of rent, interest, and profit.

The Surplus Value of Labor: Absolute and Relative

Most of the other classical economists had the penny-pinching capitalists diligently accumulating the financial capital to buy the plant and its machinery through hard work and thrift. Marx discounts the implied high ethical nature of the factory owner and sees labor value itself producing the machinery and the plant.

He makes a distinction between *absolute surplus value* and *relative surplus value*. The former is the excess of new value created in a day over the value of the labor power, enlarged merely by lengthening the working day (evocative of those 12-hour work-days). The latter arises out of improvements in technology reducing the labor time required to produce a product and leading to a higher degree of specialization for the worker.

Relative surplus value corrupts absolutely, for it is the motive behind the accumulation of capital. It is something for the manufacturer to admire and claim. The more capital and the higher the state of technology, the greater the output from the labor force and, presumably, the greater the profits. A market system with the relative surplus value made possible by exchange ignites capital acquisitiveness. The original, post-feudal justification for private property came from this desire to accumulate capital and thereby relentlessly increase profits through market exchange. In Marx, greed for riches and the boundless pursuit of exchange value drives the accumulation of capital.

Marx also rejects the romantic notion of capital as property being accumulated through the frugality of the few. He notes:

This primitive accumulation plays in Political Economy about the same part as original sin in theology. Adam bit the apple, and thereupon sin fell on the human race. In times long gone by there were two sorts of people; one, the diligent, intelligent, and above all, frugal elite; the other, lazy rascals, spending their substance, and more, in riotous living ... Thus as it came to pass the former sort accumulated wealth, and the latter sort had nothing to sell except their own skins. And from this original sin dates the poverty of the great majority that, despite all its labor, has up to now nothing to sell but itself, and the wealth of a few that increases constantly although they have long ceased to work. Such insipid childishness is every day preached to us in the defense of property.⁶

Even Marx had his literary moments.⁷

The Beginning of Monopoly Capital

Marx envisioned changing technology as well as increasing competition creating fewer and fewer, larger and larger firms.

⁶ Karl Marx, *Capital* (Moscow: Foreign Language Publishing House, 1961), Vol. 1, pp. 713–714.

⁷ Or, perhaps, we are reading Engels's editing.

A higher state of technology will require a larger plant and more capital for production. Competition allows the strong to dominate both the weak and the less strong, which ultimately leads to monopolistic practices. Monopoly capital means enormous wealth concentrated in the hands of a few, who can price commodities without much regard for the consumer. Thus, laborers as consumers fail to gain the benefits envisioned by Adam Smith.

The evolution of pin manufacturing in the United Kingdom, hardly known for industrial concentration, illustrates well what Marx was anticipating for much of the factory system. Pins, like iron, have changed little in the two centuries since Smith. However, technology and the degree of density in the industry have changed greatly.

In the mid-18th century pin-making was essentially a cottage industry, with a great deal of production taking place in workhouses. The replacement of labor by machine production recast the structure of the industry. Pin-making machines combined the many separate operations from which the Smithian benefits of the division of labor flowed (though Smith did acknowledge the positive effect of the invention of machines to replace labor). Over time the speed of these machines has increased — from about 45 ppm (pins per minute) in 1830 to 180 ppm in 1900 and to 500 ppm in 1980. Whereas Adam Smith had each person making 4,800 pins a day in 1776, 200 years later the daily output per worker in the United Kingdom was an estimated 800,000 pins — a productivity increase of 16,667 percent!

Should anyone care a pin about this story? Going to its point, it is simply this: During the Industrial Revolution machines increasingly replaced labor, and the cost of such machines built barriers to entry naturally leading to fewer firms in each industry — that is, to industrial concentration. As late as 1900 there were some 50 pin factories in Birmingham alone, but by 1939 the number in the entire United Kingdom had shrunk to about 12, and by 1980 there were only two, the Newey Group, with a pin factory in Birmingham, and Whitecroft Scovill, which has a factory in Gloucestershire.

Today, specialization in the United Kingdom has nearly reached the single factory limit.⁸

Worker Alienation

In Marx's famous *doctrine of increasing misery*, the conditions of labor worsen compared to the improved conditions of the capitalist. When the relative lot of the workers becomes intolerable, they will rise up against the capitalists in a social and economic revolution. Behind this doctrine is the theory of estranged labor, in which capitalism alienates and dehumanizes workers.

Why was labor estranged? First, laborers did not control the nature of the product, but rather it controlled them and dictated their labor. Second, factory workers did not work for themselves but for their employer. Any benefits accrued to the workers would have to be consumed in their leisure hours; there was no direct satisfaction from work. Moreover, in Manchester and elsewhere, refuse and filth greeted the workers at home.

Alienation develops in the market exchange system for a number of reasons. Marx and Smith both believed that a finer and finer division of labor would increase productivity, and also that, as Smith put it, "the man whose whole life is spent in performing a few simple operations ... generally becomes as stupid and ignorant as it is possible for a human creature to become." Specialization from the division of labor is evil, Marx concluded, not only because of monotony but because it divorces workers from their fellow workers and from the end product. Capitalism is dehumanizing.

Even if the accumulation of capital results in higher wages, wages will not keep pace with profits. Incomes may be enough to stave off hunger, but as relative income differentials continue to widen, social discontent will begin to stir. Work does not enhance

⁸ These data are gleaned from a neat little article by Clifford F. Pratten, "The Manufacture of Pins," *Journal of Economic Literature*, 18(1), 93-96 (March 1980).

the satisfaction of a need, it is merely a means of satisfying needs external to it. In Marx's words:

What, then, constitutes the alienation of labor? First, the fact that labor is external to the worker, i.e., it does not belong to its essential being; that in his work, he does not affirm himself but denies himself, does not develop freely his physical and mental energy but mortifies his body and ruins his mind. The worker therefore only feels himself outside his work, and in his work feels outside himself. He is at home when he is not working, and when he is working he is not at home.⁹

The worker was no longer the craftsman creating, but the servant of a new industrial process. Even the word *master*, which had meant the master of a craft, came to mean a person who was the master of other people.

And so, workers and employers are polarized. With monopolies, more and more of the wealth of the nation sifted through the hands of workers and piled up at the feet of the capitalists. What Adam Smith merely detested — monopoly — Marx saw as inevitable. Added to this potential for conflict is the workers' attitude toward work itself.

As the workers begin to see their labor as drudgery, they lose the recreation or delight coming from variety. During the Industrial Revolution an enormous change in labor took place from direct hand production — like that still done today in certain arts and crafts — to a production system requiring routine operations. Indeed, one reason that unions were unattractive to workers in the early days of the trade union movement in England is that many workers felt that membership in a union meant acquiescence in a hated factory system.

The Business Cycle

From the ashes of monopoly capital Marx built the first sophisticated model of the business cycle, of boom and bust. Marx

⁹ Karl Marx, *Economic and Philosophic Manuscripts of 1844* (Moscow: Progress Publishers, 1959), p. 69.

saw the successive depressions of capitalism becoming increasingly severe, so much so that the workers would finally revolt, overthrow capitalism, and build a socialist economy. As Marx put it, “the knell of capitalist private property sounds. The expropriators are expropriated.”¹⁰ His theory of the business cycle is technical, and we can do no more than summarize it here.

The Industrial Revolution began with a surplus of agricultural and cottage-industry workers seeking employment in factories. The surplus of workers enabled factory owners to keep the wage rate at a subsistence level (Ricardo’s iron law of wages), but as industry expanded, the demand for labor grew until full employment. At these higher levels of labor demand and employment, the owners of capital had to pay higher and higher wages to get enough workers for their factories.

Labor-saving machinery turned out to be a godsend: with it, *fewer* workers could produce the same number of pins. The problem of high wages could be temporarily solved by replacing workers with machines — known today as technological unemployment. Marx thought the number unemployed this way sufficient to be termed an “industrial reserve army.”

So far, so good — for the capitalist. But, beyond a certain point in this process, capitalists began to be self-defeating. The new labor-saving machinery and soaring productivity flooded the markets with extra goods just as the workers’ incomes were being restricted by that very same machinery. Lower income meant lowered consumer demand.

As sales revenue fell, the producers stopped making plans to add to a capital stock, now producing goods in excess of what could be sold. Even today economists look to a decline in the capital-goods industry for a portent of economic downturns. The decline eventually causes unemployment, lower total wages, and falling national income. Up to this stage, Marx had anticipated

¹⁰ Karl Marx, *Capital*, *op. cit.*, p. 763.

John Maynard Keynes's theory of insufficient total demand, about which more later.

Contrary to Keynes and in tune with the neoclassicals, Marx saw recovery from these cyclical slumps as automatic. However, the assurance of economic recoveries did not guarantee the survival of capitalism. Moreover, the causes of recovery were different from those espoused by the neoclassicals. The surviving large business firms swallowed the failing small firms and restored profits, but the cycle became increasingly fragile. Each time the business cycle turned downward, it plunged deeper. The Great Depression of the 1930s would have surprised Marx less than the failure of revolution to follow it.

MARX'S VISION

Many people made premature predictions about the death of capitalism during the Great Depression of the 1930s, and the American Communist Party gained some adherents, including even some Hollywood stars, as Ronald Reagan was to confess, on their behalf. But by the end of World War II the mixed enterprise system of the United States bore only a family resemblance to the kind of capitalism that Marx had attacked.

For one thing, national defense spending escalated during the cold and hot wars with the Soviet bloc and other communist nations. (Ironically, the Soviets may have been responsible for faster growth in the United States.) For another, the government often intervened on behalf of both the capitalists and the workers. Marx correctly saw the government as the enforcer of property rights and the protector of the entrepreneurs' economic power. For example, minimal capital gains taxation and low or avoidable inheritance taxes became measures protecting private property. Marx believed that governments would even go to war to expand the size of markets for products and provide roads, railroads, and canals in the interests of profitable commerce. Despite his affinity for libraries, Marx was not naive.

The *Communist Manifesto* was published in 1848, the same year as J. S. Mill's *Principles*, but the improving economic conditions in the 1860s and 1870s kept Marx's radical ideas underground, gave succor to the emerging optimism of mainstream English economics, and fed J. S. Mill's modest reform proposals. During 1862–75 the real wage in England improved by 40 percent. Still, Marx anticipated, in some detail, the evolution of capitalism, but he underestimated the resiliency of reformed capitalism and the effectiveness of patriotic appeals to labor. He, too, did not anticipate the aspirations of the working class for a capitalistic lifestyle. The system that Marx wanted overthrown is now only vestigial, and the potential for revolution against industry has consequently diminished. If whatever the American economy is today were to be replaced by a Marxist one, it would not be pure capitalism that would be overthrown: you cannot overthrow what does not exist.