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# History of Economic Thought

## IX. Socialism

### Marx and Marxism

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1. Ricardian Socialists before Marx
2. Karl Marx and Friedrich Engels
3. The Labour Theory of Value
4. Class Conflict and Exploitation
5. Materialism and Revolution
6. How Will Socialism Work?



# 1. Ricardian Socialists Before Marx

## Origins

- Inspired by classical economics
- Worked out Ricardo's economics
  - Therefore rejected the free market

## Importance

- The key group of socialist economists before Karl Marx
- A British group, first half of the 19<sup>th</sup> century



- *The Effects of Civilization on the People in European States* (1805)

## **Class War**

- Rich vs. poor: the poor always taken advantage of
- The poor are forced to accept a job working in manufactures by a kind of compulsion
  - The labour contract is not voluntary, but coerced
  - Wealth is power
- Manufactured products are only for the rich
- Increasing degradation of the working class, the rich draw off more and more of the product of labour
- Manufactures sign of poverty

## **The Solution: Return to the Land**

- Equal possession, redistributed through the state
  - Each should enjoy the whole fruits of his labour
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- Man of leisure

*An Inquiry into the Principles of Distribution of Wealth* (1824)

- Utilitarianism: highest sum-total of human happiness the goal
- People are capable of equal enjoyment, wealth should be distributed to maximize happiness → equality of distribution

## **Labour, the Only Source of Wealth**

- Labour must be induced to produce the maximum amount of wealth
  - Clear conflict between maximizing production and happiness
  - The labourer should be given full product of his labour
  - Equality pursued whenever it does not lessen production

## **Capitalist Exploitation**

- Capitalists provide the tools to labour in exchange for payment
- A just price would be depreciation costs
- Capitalists conspire to extract the whole surplus value produced



## Naval Officer

- Pamphlets against harsh disciplines, travel books
- *Labour Defended against the Claims of Capital* (1825)

## Socialism and Individualism

- Anarchistic temperament, distrust state authority, intervention
- Clear inspirations from Adam Smith on benefits from trade
  - The price system is “the finger of Heaven”
- Labour is everything in production, land and capital nothing
  - Return to capital an unjust exaction from labour
- Pushes the implications of Smith and Ricardo to their final conclusion



## Unknown Author of *Labour's Wrongs and Labour's Remedy* (1839)

- God made men good, they become bad due to environment
- Property the great enemy, the source of division between people
  - Employers vs. employed, labourers vs. idlers
- Men are equal from nature, should labour and be rewarded equally

## Labour Theory of Value

- There should be equality in exchanges
- The labourer gives the capitalist the labour of a year
  - But the capitalist only gives half that in return
  - It is legalized robbery



## *Lecture on Human Happiness (1825)*

- Society founded on propensity to exchange labour for labour
- Distinction between productive and unproductive labour
  - Very limited group of productive labour: direct work with hands
  - Unproductive labour a “direct tax” on the productive class
- Labour is the sole foundation of property
  - Property is accumulated labour
  - Propertied classes are engaged in spoliation of labour
- Capital and land exacts value from labour
  - Ricardian value theory
  - Iron law of wages
- The capitalist system reduces productivity greatly below potential





## 2. Karl Marx and Friedrich Engels

- “Scientific” socialism
- Conscious contrast to earlier “Utopian” socialists
- Professional Revolutionaries
- *Communist Manifesto* (1848)
- *The German Ideology* (1846) (published 1932)
- *The Critique of Political Economy* (1859)
- *Capital*, I-III (1867-94)



## **Karl Marx (1818-83)**

- Born in Trier, student at Bonn, Berlin, Jena
- Journalist, radical activist until 1848
- In exile in England from 1848, supported by Engels

## **Friedrich Engels (1820-95)**

- Born in Wuppertal
- Successful industrialist, owned several textile factories

## **The Partnership**

- Together in radical communistic organisations
  - Co-authors, Engels edited many of Marx's works
  - Engels supported Marx materially throughout his life
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## The Problem of the Utopians

- Marx accused them of having no knowledge of the proletariat
- The Utopians are bourgeois dreamers
- The Utopians focused on morality
- They dream up a new society, then look around for a capitalist to launch it (Fourier)

## Scientific Socialism

- Hard-headed scientific socialism go further: it explains why socialism *has* to come about
- Socialism is the necessary product of historical developments
- The existing capitalist order is bound to give way to socialism



## Hegelianism

- Thesis → antithesis → synthesis
- Marx rejects Hegelian idealism → adopts a materialist philosophy

## Philosophy of History

- In Hegelianism and in the Utopians
- “Scientific” in the Saint-Simonians

## Marx at his “rein wissenschaftlich”

- Classical economics, especially Ricardo
- Economics describes the actual process leading to revolution
- Class conflict from the French liberals (Thierry, Dunoyer)

## Before everything else, Marx was a communist

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### **3. The Labour Theory of Value**

#### **Development of Ricardian Theory**

- In common with the English Ricardian socialists
- Thought out to logical conclusion

#### **The Key to Marxist Economics**

- Exploitation explained from the theory of value



## The Source of Value

- Commodities are exclusively the product of labour
- Labour the only common element to commodities being exchanged
- The equation expressing the exchange shows that labour is present in equal quantities in both commodities

## Human Labour in the Abstract

- Labour is an abstraction – not any human activity called labour
  - You can “labour” and produce something no one wants
- You can devote more labour than socially necessary to produce a good
  - Not labour to the full extent, results in a glut
  - Only the socially necessary labour counts
- Skilled labour “reduced” to simple labour
  - How? Consulting differences in prices, find the multiplier reducing an engineer to an unskilled labour
  - All of it is a circular argument



## Labourers and Labour-Power

- Labourers sell their labour power to capitalists
- Natural price of labour per Ricardo: that which enables the labourer to subsist and reproduce
- Capitalists pay the natural price

## Surplus Value

- The difference between the price of labour and the full value of the product of labour
- E.g., a labourer may make enough to subsist in 6 hours – he will work for 10 or 12 hours
- The difference is kept by the capitalist



## The Role of Capital

- Creating surplus value
- By prolonging working hours
- Reducing the number of hours the labourer must work to subsist
- If the labourer becomes more productive due to more machinery, he works less hours for subsistence
- Women and children can also increase surplus value
  - The whole family wage will fall to subsistence

## Interest

- Interest or the rate of profit is derived wholly from labour
- The ability to exploit surplus value is the source of interest





## The Organic Composition of Capital

- Constant and variable capital – machinery and wage fund
- Machinery creates no surplus value – the whole value is transferred to the product

## Increasing Surplus Value

- Capitalist introduce machinery to increase surplus value by increasing productivity of labour
  - “Converting” variable into constant capital
- However, only variable capital earns surplus value
- Marx’s solution: surplus value “averaged out” across employers



## An Apparent Contradiction

- Only variable capital earns surplus value
- Rate of profit should therefore vary with the organic composition of different industries – yet it doesn't
- Marx frankly acknowledged this in vol. I of *Capital*, promised a solution in vol. III

## The Solution

- Commodities exchange at their prices of production
  - Cost-price plus average rate of profit
- This not the same as their “value” – they will exchange above and below it
- Really, abandoning the labour theory of value as an explanation of prices



## 4. Class Conflict and Exploitation

### Division of Labour and Property

- The origins of conflict here
- Alienation

### Progressive Exploitation

- In the nature of the system
- An “amoral” explanation



## The Progress of Immiserization

- Capitalists aim to exact evermore surplus value
- Built into the system: not a question of bad character
- Capitalists have to aim for more surplus value, or they will themselves be pushed out
- Labourers become poorer and poorer as a result
  - Note a contradiction: they are supposed to already be as poor as possible

## The Growing Proletariat

- A growing proletariat class means more surplus value for capital
- Capital will tend to concentrate on fewer hands: the lower rung of capitalists will be pushed out
- Growing split between the massive working class and the smaller and smaller capitalist class



## Class War – from the Socialists

- Theme from Rousseau
- Inherent conflict in the worked-out Ricardian theory of value
- Key issue to Marx: property, control of the means of production

## The Opposing Tradition

- French liberal school – from J. B. Say on
- Charles Comte (1782-1837), Charles Dunoyer (1786-1862), Augustin Thierry (1795-1856), key journal *Le Censeur* (1814-19)
- Key question: control of the state
  - The ruling class exploit everybody else
  - Grants of monopoly, protective tariffs...
- Practically mainstream in 19<sup>th</sup> century – de Tocqueville, Bastiat, Pareto



In every revolution, there are only two parties: those who want to live by their own work, and those who want to live off the work of others... Patricians and plebeians, slaves and freedmen, Guelfs and Ghibellines, red roses and white roses, Cavaliers and Roundheads, liberals and serviles, all are examples of the same kind.

- Adolphe Blanqui, *Histoire de l'économie politique en Europe* (1837-42)

The history of all hitherto existing society is the history of class struggles. Freeman and slave, patrician and plebeian, lord and serf, guild-master and journeyman, in a word, oppressor and oppressed, stood in constant opposition to one another, carried on an uninterrupted, now hidden, now open fight...

- Marx and Engels, *The Communist Manifesto* (1848)



## 5. Materialism and Revolution

### Philosophy of History

- Hegelianism and Materialism
- Alienation

### Class Conflict and Revolution

- Conditioned by the relation to the factors of production
- The inner contradictions of capitalism



## Philosophy of History

- Hegelian scheme: thesis → antithesis → synthesis
- Mystic/Platonic: original unity → alienation → reabsorption
- Saint-Simonians: theological → metaphysical → positive
- Marxist: original communism → class society → communism

## Materialism

- Marx accepts the Hegelian view of history
- But he rejects idealism: only matter exists, it and not spirit drives history

## Alienation

- Plays a large role in Marxism
- The division of labour is alienating
- Man is alienated from the means of production
- And he is alienated from the product





# The Material Productive Factors and the Progress of History

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## The Progress of History

- The material productive factors drive history
- Society is formed by the factors and man's relationship to them
- A given structure of society persists so long as it can accommodate the productive factors
- When the material factors of production have developed as far as they can within a given society, revolution results

## The Superstructure

- The social and intellectual world is completely determined by man's relationship to the material factors of production
- Ideas, ideologies, are just a superstructure – e.g., political economy simply justifies the capitalist's role to himself and society



In the social production of their means of existence men enter into definite necessary relations ... The aggregate of these productive relationships constitutes the economic structure of society, the real basis on which a juridical and political superstructure arises, and to which definite forms of social consciousness correspond ... It is not the consciousness of men that determines their existence, but, on the contrary, it is their social existence that determines their consciousness.

- *Critique of Political Economy*

Social relations are closely bound up with productive forces. In acquiring new productive forces, men change their mode of production; and in changing their mode of production, in changing the way of earning their living, they change all their social relations. The hand-mill gives you society with the feudal lord ; the steam-mill, society with the industrial capitalist.

- *The Poverty of Philosophy*



## **Tendency of Concentration**

- Capital will accumulate in fewer and fewer hands
- Eventually, society will be dominated by a few gigantic monopoly companies

## **Tendency for Production to Outpace Consumption**

- In search for surplus value, capitalists enormously increase productivity
- This leads to periods of overproduction, as there is too little demand
  - The Marxist analysis of business cycles
- The business cycle will get worse and worse as capitalism matures



## The Ruling Class

- The capitalists, i.e., the owners of property rule are the rulers
- The state is merely the instrument of the ruling class
  - The executive committee of the bourgeoisie
- Their aim is simply to perpetuate their own rule, own class position

## The Revolutionary Class

- The growing proletariat
- Characterized by not owning property, by being exploited
- As the capitalist stage nears its end and breaks down, they carry out the socialist revolution
- The dictatorship of the proletariat follows
- Finally this ushers in the classless society of the future
- Back to the original position: but at a much greater level of productivity



## Polylogism

- The ideologies of all classes are determined by their relationship to the means of production
- There is a proletarian logic, inaccessible to the bourgeois
- “Bourgeois” economics simply provide the ideological justification for capitalism – it is not true
  - But why? If capitalism is a necessary stage, then Marxism should provide this justification

## False Consciousness

- What about liberal labourers?
  - Liberalism not in their class interest
- They suffer from false consciousness – but how can we know?



## 6. How Will Socialism Work?

### The Key Question?

- Central to Utopian socialism

### How Does Marx Answer It?

- He doesn't!
- Answering this question would be unscientific
- Marx only a critic of capitalism and a prophet of socialism



## Key Critique of Utopian Socialism

- The Utopians laid out in detail how socialism will work
  - Their proposals are ridiculous
  - The specific proposals are not the problem, however
- Fundamentally, it's wrong to discuss how socialism will work

## The Scientific Answer

- We should not even ask the question – it is unscientific
- Our minds and ideas are determined by our material surroundings
  - Can we even comprehend the answer?
- Socialism represents a higher stage of development – therefore it will be better



In communist society, where nobody has one exclusive sphere of activity but each can become accomplished in any branch he wishes, society regulates the general production and thus makes it possible for me to do one thing today and another tomorrow, to hunt in the morning, fish in the afternoon, rear cattle in the evening, criticise after dinner, just as I have a mind, without ever becoming hunter, fisherman, herdsman or critic.

- Marx

Man will become incomparably stronger, more intelligent, more subtle. His body will be more harmonious, his movements more rhythmical, his voice more musical; the forms of daily existence will acquire a dynamic theatricality. The average human type will rise to the level of Aristotle, Goethe, Marx. And above this ridge new peaks will rise.

- Trotsky