

# [Human Society and the Global Economy](#)

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## Chapter 11: Capitalism's Crises and Critics

Marx had the good fortune, combined, of course, with the necessary genius, to create a method of inquiry that imposed his stamp indelibly on the world. We turn to Marx, therefore, not because he is infallible, but because he is inescapable. Everyone who wishes to pursue the kind of investigation that Marx opened up, finds Marx there ahead of him, and must thereafter agree with or confute, expand or discard, explain or explain away the ideas that are his legacy.

- Robert Heilbroner, *Marxism: For and Against*

## Overview

Karl Marx (1818-1883) helped shape much of 20th century thinking about the nature of capitalism, the interrelationship of society and technology, even the very way in which we understand history. This chapter, after a brief introduction to some of the critics of capitalism who preceded Marx, will examine the major elements of Marxist thought as it applies to economics and to economic history. It will also explore some of the differences between Marxian economics and what has become mainstream thought in economics. Finally, from the perspective

provided by more than 125 years of capitalism since the first volume of *Capital* was published (1867), we will evaluate some of the predictions that stemmed from Marx's theories.

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# Early Critics of Industrial Society

The excesses of the early industrial revolution bred critics. Child labor, poverty and insecurity seemed the only reward for those not fortunate enough to be capitalists or landowners. Some social visionaries of the early 19th century searched for ways to overcome the horrors of the industrial revolution.

Robert Owen improved working conditions in his own textile mill, New Lanark, near Glasgow. He provided clean housing for mill families and schools for their young children - although children started working over ten hours a day once they turned eleven. After failing to convince Britain's Parliament to create similar communities all over Britain, he sold New Lanark and tried to establish utopian communes in the United States. While none of his communes survived, Owen did launch the successful consumer cooperative movement in Britain.

Other visionaries, including Henri de Saint-Simon and Charles Fourier in France tried to launch similar movements. Many of the schemes of these **Utopian Socialists** shared a number of notions:

- Capitalism was deficient on **moral** grounds, and could be made more humane by improving people's moral understanding.
- Industrialization itself was the problem - so humankind needed to return to basic agricultural and craft pursuits.
- Utopian communities could be formed by groups of people simply isolating themselves from the greed of industrial society.

- Once a few utopian communities were established, they would quickly spread by example.

Karl Marx was cut of different cloth. He saw the tremendous industrial power unleashed by capitalism as a force that would free humankind from want and misery. And, although he often satirized the capitalists as "Mr. Moneybags" and characterized the lesser economists as "vulgar economists" and their work as "trash," Marx did not argue for the abolition of capitalism on *moral* grounds. Instead, he **analyzed** capitalism and identified a number of elements of capitalism that would lead to its eventual self-destruction. Capitalism would be replaced by a new economic system - about which Marx wrote very little - which would be as superior to capitalism as capitalism had been to feudalism.

[Return to Chapter Contents](#)

## On Understanding Marx

We need to look at Marx the same way we look at any of the major economists: with a goal of understanding his theories and their implications. Unfortunately, there are a lot of preconceptions about Marx that make this more difficult than with other economists. Some of these preconceptions stem from the former USSR calling itself "Marxist." Some stem from Marx's use of ponderous philosophical terminology, much of which does not translate from German to English very gracefully. And some stem from the very fact that Marx's ideas were rarely given serious consideration by Western economists.

First, Marx is surrounded by a great deal of controversy. We should keep the following in mind: Marx, a German who did most of his work in London, died in 1883, 34 years before the Russian Revolution. Marx

never expected that revolutions in his name would be carried on in backward countries like Russia, and he never provided a "plan," political or economic, for using socialism to institute an industrial revolution. However, Marx was far from an armchair philosopher/economist. He was not just trying to understand the economic system - he was trying to change it. As Marx put it: "The philosophers have only interpreted the world, in various ways; the point is to change it." [\[1\]](#)

Second, Marxism's underlying philosophy is called **Dialectical Materialism**. "Materialism" is used here in its philosophical sense - the idea that matter precedes mind, rather than in its current common usage implying being driven by greed for material objects. "Dialectical" refers to the interplay of opposites that Marxists claim underlies history - for example, capitalism not only creates capitalists, but creates the opposing force - an industrial working class - that will eventually overthrow capitalism.

Third, the Marxist branch of economics is still relatively undeveloped. Marxist economists were not usually welcome in the universities of the capitalist countries - although by the 1960s many large economics departments in the U.S. had a token Marxist. In the USSR Marxism came very close to being a state religion - which precluded the free inquiry that is necessary to develop any branch of social science. It seems that nearly everyone has a strong opinion about Marx's ideas, but very few have made much effort to find out what these ideas are. Joan Robinson encountered these strong but unfounded opinions when she began to look into Marx's economics:

I began to read *Capital*, just as one reads any book, to see what was in it; I found a great deal that neither its followers nor its opponents had prepared me to expect.

...The academics did not even pretend to understand Marx. It seemed to me, apart from prejudice, a barrier was created for them by his nineteenth-century metaphysical habits of thought, which are alien to a generation

brought up to inquire into the meaning of meaning. I therefore tried to translate Marx's concepts into language that an academic [economist] could understand. This puzzled and angered the professed Marxists, to whom the metaphysic is precious for its own sake. [2]

[Return to Chapter Contents](#)

# The Material Foundations of History

Marx changed forever the way we think about history. Before Marx, history was mostly biography - in fact history was primarily the biographies of kings, prime ministers and popes. The deeper thinkers (Hegel, for example) concentrated on the history of ideas.

Marx emphasized the *material foundations* of society. Government, culture, philosophy - even religion - were built on a material foundation. This foundation put definite limits on human activity. To take an extreme example, it would be impossible - even if some political philosopher could come up with the *idea* - to create a parliamentary democracy within an estate-based feudal economy.

While Marx's particular model of historical change is still quite controversial, his focus on material life is not. Many historians now pay as much attention to what people ate, how they built their houses, what they bought and sold in their markets and how the production of textiles was organized as they do to who ruled and what wars they fought.

Marx did not ignore government, law or religion - he attempted to explain their forms by examining the system of production:

I was led by my studies to the conclusion that legal relations as well as forms of state could neither be understood by themselves, nor explained by the so-called general progress of the human mind, but they are rooted in the material conditions of life.

In the social production which men carry on they enter into definite relations that are indispensable and independent of their will; these relations of production correspond to a definite stage of development of their material powers of production. The sum total of these relations of production constitutes the economic structure of society - the real foundation, on which rise legal and political superstructures and to which correspond definite forms of social consciousness. The mode of production in material life determines the general character of the social, political and spiritual processes of life. It is not the consciousness of men that determines their existence, but, on the contrary, their social existence determines their consciousness. [3]

Marx used these concepts to explain the major changes in human society. Our productive capacity at any point in time, the **forces of production**, depends on our technology (our knowledge about production) and our tools. But we do not produce as individuals - production is social. So every society has a set of rules and beliefs that affect production (even if they are not always directly about production). The forms in which property is held or owned, religious beliefs about correct and incorrect behavior, legal or customary relationships between laborers and other members of society, land tenure institutions, etc. all comprise the **social relations of production**. A particular level of development of the forces of production combines with social relations of production appropriate to that level of development to comprise a **mode of production**, or economic system. The slave-based economy of much of the ancient world, feudalism, capitalism and socialism are all modes of production.

Change of the mode of production normally starts with the forces of production. Humans are inherently inventive. Since much of our time and attention is dedicated to maintaining our material life, we are particularly inventive when it comes to tools and methods of production. Until

capitalism evolved, however, the social relations of production did not usually encourage inventiveness applied to production. But our inventiveness is much like a weed. You can pave a piece of land, you can spray it with chemicals, but eventually some weeds are going to break through the asphalt.

Since the social relations of production are usually slower to change than the forces of production, a tension gradually develops between the advancing forces of production and the limits imposed by the social relations of production. For example, as merchants in the 1500s invented new ways to expand their trade by organizing production into a greater division of labor, the hold of the guilds on skilled labor and the hold of the landed estates on unskilled labor delayed the application of these new organizational principles. Western Europe was saddled with social relations of production that were no longer appropriate to the higher level of development of the forces of production.

Now comes the class struggle. The old ruling groups (landlords, bishops and guild masters) would have preferred that the social relations of production not change. After all, they were the beneficiaries of the system. The new ascending class (merchants and merchant/capitalists) needed a new form of social organization - labor that is 'free' of guild restrictions or feudal obligations; a system of contractual law; social stature determined by money rather than by birth; etc. The harder the old ruling classes tried to hang on to their power, the more they refused to compromise with the new ascending class, the more explosive was the eventual change.

And change is the one constant in the Marxian vision of history. No sooner did Britain's capitalists eliminate the last vestige of power of the landlords with the abolition of the Corn Laws [\[4\]](#) in 1846 than they began to confront the increasing power of the working class. The class struggle shifted from Capitalists vs. Landlords to Workers vs. Capitalists.

But, in Marx's analysis, capitalism was much different than the modes of

production that had preceded it. In previous economic systems, the technology of production changed - slowly - in spite of efforts to repress such changes. Capitalism was the first mode of production in which the ruling class gained and held power through purposely introducing new technologies of production. The productive capacity of humankind was expanding at a rapid rate:

The bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations together. Subjection of nature's forces to man, machinery, application of chemistry to industry and agriculture, steam navigation, railways, electric telegraphs, clearing of whole continents for cultivation, canalization of rivers, whole populations conjured out of the ground - what earlier century had even a presentiment that such productive forces slumbered in the lap of social labor. [5]

Unfortunately, the capitalists' purpose was to expand their own wealth and power, not to improve the material life of society. The industrial working class - which would become the vast majority - would have to scrape by on a subsistence income in spite of the tremendous volume of goods and services that they were now capable of producing. There would usually be enough idle potential workers seeking employment - what Marx called ***the reserve army of unemployment*** - that the supply of labor would exceed the demand. And if wages should increase, the capitalists would speed up the pace of introduction of new technology until they could produce more goods with fewer workers, once again increasing unemployment and driving wages back down to subsistence. Note that in Marx's model it is technology which pushes wages to subsistence, not population growth as in the theories of the earlier classical economists.

[Return to Chapter Contents](#)



# Notes

1. *Theses on Feuerback*, 1845.
2. Robinson, Joan, *An Essay on Marxian Economics*, Second Edition, 1966. New York, St. Martin's Press. Pg. vi.
3. *A Contribution to the Critique of Political Economy*, 1859.
4. The Corn Laws were a set of tariffs on imported grain [Corn is the British term for all grains]. These tariffs protected the landlords' rents from the effect of cheaper imported grains. David Ricardo [*Essay on the Influence of a Low Price of Corn on the Profits of Stock*, 1815] had argued that high grain prices led to high bread prices and high bread prices led to high money wages. High wages cut into profits just as high grain prices raised agricultural rents. This transferred earnings from the dynamic capitalist class to the backward landlord class. However, lower bread prices would be of no benefit to the working class since money wages would fall with the price of bread.
5. Marx, Karl and Engels, Friedrich, *The Communist Manifesto*, 1848.
6. Michal Kalecki, a Polish Marxist, developed a complete business-cycle theory incorporating aggregate demand several years before Keynes. Unfortunately, it was some years before his work, published in Polish, was accessible to English-speaking economists.
7. In the US, the construction industry normally accounts for about 8% of GDP. If it contracts by 15%, which is not unusual, that makes up over 1% of GDP without even counting the related industries that will be affected.
8. The ability of government to redistribute income will be limited by the social relations of production. High levels of government support of consumption may be detrimental to the incentive to work for low pay at dull jobs.
9. By reducing the amount of labor required to produce subsistence goods.
10. Marx, Karl and Engels, Friedrich, *The Communist Manifesto*, 1848.
11. Carleton, Jim and Pacelle, Mitchell, "Weak-Home Market Confers an

economist/philosopher Heilbroner evaluates Marxian ideas. Non-technical.

Heilbroner, Robert L.

*The Worldly Philosophers*, Sixth Edition, New York, Simon & Schuster, 1986. Chapters on the Utopian Socialists and Marx. The life, times and ideas of Marx in one brief and lively chapter.

Marx, Karl and Friedrich Engels

*The Communist Manifesto* 1848. Numerous editions available. If you want to read something **by** Marx, start here.

Meyers, Henry F.

"His Statues Topple, His Shadow Persists: Marx Can't Be Ignored," *Wall Street Journal*, November 25 1991, Pg. A1. Why Marx is still important.

Rius

*Marx For Beginners*, New York, Pantheon, 1976. An introduction to Marxian ideas in comic book format.

Schumpeter, Joseph

"The Marxian Doctrine," part of *Capitalism, Socialism and Democracy*, New York, Harper & Row, 1975. An evaluation of Marx by the 20th century's most perceptive conservative economist.

Sweezy, Paul M.

*The Theory of Capitalist Development: Principles of Marxian Political Economy*, New York, Oxford University Press, 1942 (republished in 1968 by Monthly Review Press). Marx's theory of the laws of motion of capitalism are presented here with great clarity. Sweezy has been the leading Marxist economist in the U.S. since the 1940s.

## Net Notes

Marx's works, along with those of his friend, editor and sometimes co-author Engels can be found at the [Marx/Engels Archive](#). These two were prolific writers so it will be awhile before the archive is complete, but it grows daily. The archive includes an excellent search mechanism, photographs and other biographical material. This is an exceptionally well-organized website.

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