

Smith, Marx, Keynes: A View of the History of Economic Thought (UNFINISHED)

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1. Smith, Marx, Keynes

Examine the history of economic thought through the lens of three major economic thinkers: Adam Smith, Karl Marx, and John Maynard Keynes, each of whom wrote one long, difficult, but undeniably great book. Adam Smith in 1776 published his *An Inquiry into the Nature and Causes of the Wealth of Nations*. Karl Marx in 1867 published his *Capital: A Critique of Political Economy* (volume 1). John Maynard Keynes in 1936 published his *The General Theory of Employment, Interest and Money* (note the absence of the Oxford comma from Keynes's title: Keynes was a British

academic but not one from Oxford but rather from the University of Cambridge). In addition, read Robert Heilbroner's excellent (if old) *The Worldly Philosophers*, a short survey of the history of economic thought, for context and background.

Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations*, Marx's *Capital: A Critique of Political Economy*, and Keynes's *The General Theory of Employment, Interest and Money* are great books to have read, if not easy books to read. They are, in fact, downright painful. (Heilbroner's *The Worldly Philosophers* is, by contrast, painless, easy, and still great.) Learning how to read great but difficult books and make sense of them on your own is a very valuable skill to learn, but a difficult one to teach in any way but by doing it. Moreover, a great book is a great book only if the reader is ready and prepared to read it—and so learning to figure out how to become the kind of reader to appreciate a particular great book is another important skill to learn as well.

2. Economic Aspects of Adam Smith's Moral Philosophy

2.1. Starting Points in Human Nature

Adam Smith starts with the observation that humans are largely but not exclusively self-interested creatures: we are, largely but not exclusively greedy. Yet we have a complex and sophisticated societal division of labor. And that division of labor is essential to our prosperity. Indeed, it is essential to our survival: drop one or two of us into the Sierra Nevada, even in summer, and we will quite likely die. Drop 100 of us, and we will quite likely survive, and even flourish.

How can animals that are by nature greedy nevertheless cooperate on a large scale? That is the deep moral-philosophical question that we can see

both of Smith's big books—his *The Theory of Moral Sentiments* and *An Inquiry into the Nature and Causes of the Wealth of Nations*—as aimed at. As Robert Heilbroner puts it in his *The Worldly Philosophers*, Smith:

is interested in laying bare the mechanism by which society hangs together. How is it possible for a community in which everyone is busily following his self-interest not to fly apart from sheer centrifugal force? What is it which guides each individual's private business so that it conforms to the needs of the group? With no central planning authority and no steady influence of age old tradition, how does society manage to get those tasks done which are necessary for survival?...

Adam Smith says that our ability to create and maintain a complicated societal division of labor that is so productive rests on three facets of human nature:

1. language, that makes us an anthology intelligence—what one of us knows or learns, pretty quickly all of us within and many of us without earshot will quickly learn;
2. hierarchy, in that we tend to form and respect weak dominance hierarchies in which we can command and obey;
3. gift exchange: we bind ourselves by forming gift-exchange relationships, what Adam Smith called our “natural propensity to truck and barter“. We firmly expect to be and are very happy when I we trade favors with each other, and we are uneasy when we feel as though we are always giving or always receiving, for we want the exchange of gifts and favors to be reciprocal, and roughly balanced.

Back in our environment of evolutionary adaptation, we could form gift-exchange relationships only with a few: our close neighbors, our good friends, and our near kin. Trust, you see, is necessary for a long-term gift-exchange relationship, and short-term such relationships are rare because

each has to have and be willing to give up something the other wants or needs right now. And since we are largely self interested, trust is hard to generate and maintain without other binding social ties.

2.2. From Human Nature to Human Society

Hence the key importance of the human cultural invention of money in forming our large-scale human society: money means that any one of us can make a short-term one-shot exchange relationship with any other one of us, someone who we may well never see again. Money, you see, is manufactured trust, and it allows us to extend our societal division of labor to encompass, indirectly, nearly everybody else in the world.

For example, consider the 30-foot bronze statue of Athene Promakhos—Athena Fighting-in-Front—that the council and people of Athens had cast and installed on the Acropolis around -450. The Greek geographer Pausanias wrote that anyone approaching Athens by sea by day could see her gleaming helmet and the tip of her spear as soon as they had rounded Sounion Head at the southern tip of Attika. 70 tons of bronze supposedly went into the statue, which survived until 1204—63 tons of copper, 7 tons of tin. Copper was abundant. But where in the -5th century were the artisans of Athens to find 7 tons of tin? The historian Herodotos states that he could find nobody in Athens who knew where the tin was coming from: all anyone could say was that the ships had picked up the tin, already mined, in Sicily, and that they thought it came from “tin islands” in the ocean on the other side of Europe. But he could find nobody who would claim to have actually seen these tin islands, or this ocean on the other side of Europe. So he doubted the stories.

The answer, of course, was that the tin was in Cornwall, at the southwestern tip of the island of Britain. The societal division of labor, as governed by the market, was a mechanism that “knew” that 7 tons of tin

needed to be mined in Cornwall and then shipped, probably via the English Channel-Seine-portage-Rhone-Mediterranean route, to Athens via Sicily. And so it happened. But, apparently, nobody anywhere in the value chain knew its entire extent. The market knew things that no human individual knew. And this was almost 2.5 millennia ago: the market knows much, much, much more now.

Language, weak dominance, gift exchange, and money have enabled us to progress from perhaps 10,000 of us 70,000 years ago living at a global average living standard of perhaps three 3.5 dollars a day to today's world-girdling societal division of labor now 7.5 billion strong, with a global average standard of living no about \$35 a day. We are now, collectively, on average, at least 10 times as well-off and 750,000 times as numerous as we were 70,000 years ago back in the environment of evolutionary adaptation when we last passed through a Darwinian bottleneck.

2.3. Human Society and the “System of Natural Liberty”

Adam Smith was a genius because he had a truly game-changing insight into how our societal division of labor should be organized. As far as the production and distribution of our collective material wealth is concerned, you see, most of what we need and want is both excludible and rival.

If something is “excludible”, that means we can assign it an owner—some one of us can be designated to control it, and to decide on its use, or decide to transfer “ownership” of it to something else. If something is excludible, we can push the decisions about how it is to be used out to the periphery of society, to the people on the ground who know what is going on, rather than have the decision made by some centralized bureaucracy clueless because of its inability to reliably judge information conveyed to it at third- or fourth-hand. Having ownership makes sense if information about

what is going on is dispersed and hard to assemble: giving control to people on the spot is then a very good idea.

If something is “rival”, that means that one person's use of it forecloses the opportunities of others: if I am using this iPhone, you cannot be using the same iPhone. If a good is rival, that one of us is using it diminishes the opportunities and possibilities available to others. That makes them poorer. Thus it makes sense to charge a price for somebody using a rival commodity. That makes them feel in their gut the effects of their decisions on the opportunities open to others. Charging prices is a way to align individuals’ incentives about whether it is worth it for them to make use of a commodity with the effects of their decision on the overall well-being of the society.

Hence, Adam Smith argued in his *Inquiry into the Nature and Causes of the Wealth of Nations*, the wealth of nations is most greatly enhanced by following the dictates of what he named the System of Natural Liberty —“liberty” because it leaves people free to do what they wanted with their labor and their possessions, “natural” because it conforms with human nature, "system" because it can be and is extended to the status of a general principle. Let people decide what they want to do with their things and their labor, and they arrange themselves in a large highly-productive societal division of labor. Self-interest focuses people on creating value. Competition curbs any distracting focus of self-interest on accomplishing exploitation.

This “System of Natural Liberty” is, Smith argues, good. As Heilbroner summarizes:

Self-interest... drives men to action.... [But] a community activated only by self-interest would be a community of ruthless profiteers. This regulator is competition, the socially beneficial consequence of the conflicting self-interests of all the members of society. For each man, out to do his best for himself with no thought of social cost, is faced with a flock of similarly

motivated individuals who are in exactly the same boat.... A man who permits his self-interest to run away with him will find that competitors have slipped in... will find himself without buyers in the one case and without employees in the other. Thus very much as in the *Theory of Moral Sentiments*, the selfish motives of men are transmuted by interaction to yield the most unexpected of results: social harmony.... The... market is that it is its own guardian. If output or prices or certain kinds of remuneration stray away from their socially ordained levels, forces are set into motion to bring them back to the fold. It is a curious paradox which thus ensues: the market, which is the acme of individual economic freedom, is the strictest task master of all...

This leads to a fraught question: Is this a *theological* point? Is the fact that acting “naturally” in the sense of giving market exchange free rein produces good results evidence that there is a benevolent Providence out there? Is this a *teleological* point? Are, in some sense, money and gift-exchange aimed at creating prosperity? How is it that processes that are not human—that lead to consequences not desired directly by any human—have a mind of their own, and lead to good ends? It is indeed a marvel that, as Smith puts it, in his theory at least:

[While] every individual... endeavours... to direct that industry that its produce may be of the greatest value... labours to render the annual revenue of the society as great as he can.... He... neither intends to promote the public interest, nor knows how much he is promoting it.... He intends only his own security.... He intends only his own gain.... In this, as in many other cases, [he is] led by an invisible hand to promote an end which was no part of his intention...”

It is a marvel. But what kind of a marvel is it?

It is not that Smith is opposed to government. Government is necessary to protect property, and to enforce contracts: people—most people—will respect others’ property and keep their own contracts, most of the time. But for the non-most people and at the non-most times we need the police, hence we need government. We need public works. We need public

education. We need national defense. Adam Smith is very clear on all of these. In fact, Book V of the *Wealth of Nations* on what the government should do and how it should do it is the largest of the five parts of the book. But, Smith is certain, attempts of some centralized bureaucrat to undermine the System of Natural Liberty in its proper sphere—to direct who should do what when and where—were likely to produce not wealth and prosperity but poverty and misery.

2.4. Adam Smith and Poverty

Adam Smith loaths poverty.

Adam Smith is eager to create a society in which there is no poverty.

Adam Smith spends a substantial amount of time investigating the course of poverty over time. For example, he takes time and care to write:

During the course of the last century, taking one year with another, grain was dearer in both parts of the united kingdom than during that of the present.... It is equally certain that labour was much cheaper. If the labouring poor, therefore, could bring up their families then, they must be much more at their ease now. In the last century, the most usual day-wages of common labour through the greater part of Scotland were sixpence in summer, and fivepence in winter.... Through the greater part of the Low country, the most usual wages of common labour are now eight pence a-day; tenpence, sometimes a shilling, about Edinburgh.... In England, the improvements of agriculture, manufactures, and commerce, began much earlier than in Scotland. The demand for labour, and consequently its price, must necessarily have increased with those improvements. In the last century, accordingly, as well as in the present, the wages of labour were higher in England than in Scotland. They have risen, too, considerably since that time, though, on account of the greater variety of wages paid there in different places, it is more difficult to ascertain how much.... Not only grain has become somewhat cheaper, but many other things from which the

industrious poor derive an agreeable and wholesome variety of food have become a great deal cheaper. Potatoes... cost half the price which they used to do thirty or forty years ago. The same thing may be said of turnips, carrots, cabbages; things which were formerly never raised but by the spade, but which are now commonly raised by the plough. All sort of garden stuff, too, has become cheaper.... The great improvements in the coarser manufactories of both linen and woollen cloth furnish the labourers with cheaper and better clothing; and those in the manufactories of the coarser metals, with cheaper and better instruments of trade, as well as with many agreeable and convenient pieces of household furniture...

Which he then cross-checks with elite gossip:

The common complaint that luxury extends itself even to the lowest ranks of the people, and that the labouring poor will not now be contented with the same food, clothing, and lodging which satisfied them in former times, may convince us that it is not the money price of labour only, but its real recompense, which has augmented...

Having established that poverty has diminished, he next launches a full-bore attack on all those who claim this is a bad thing:

Is this... to be regarded as an advantage or as an inconveniency?... Servants, labourers, and workmen... make up the far greater part.... What improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable...

And then he makes a strong appeal to human solidarity, and to the reciprocal obligations humans undertake by entering into the gift-exchange relationships that knit society together:

It is but equity, besides, that they who feed, clothe, and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed, and lodged...

“It is but equity, besides...” This is a very strong appeal to human solidarity. It is coming from someone often seen as and sometimes dismissed as an apostle of human self-interest.

2.5. Adam Smith and Inequality

2.5.1. Inequality—and Poverty—Are Generated Outside the Market

Smith’s first way of minimizing the importance of inequality—or at least minimizing the responsibility of the market and of the economy for fighting inequality—is to argue that inequality springs from politics and sociology rather than from market economics. Inequality arises from the role that hierarchy and command-and-control play in the mixed-up processes that are human society. The society of England becomes more unequal because William the Bastard from Normandy and his thugs with spears—300 families, plus their retainers—kill King Harold Godwinson, and declare that everyone in England owes him and his retainers 1/3 of their crop. The society of England becomes more unequal because Queen Elizabeth I Tudor grants a monopoly over trade with America to Sir Walter Raleigh. Why? Because he had successfully flirted with her. These are not *economic* processes. These are not closely connected with the “system of natural liberty” than is the market economy.

Indeed, the system of natural liberty is only one way you can organize society. Societies can be organized as ones of feudal lords and peasants, as priests and worshippers, robbers bands and their victims. But these ways of organizing society are impoverishing and, Smith claims in his very naming of his system the “System of Natural Liberty”—unnatural. Dugald Stewart quotes from one of Smith’s lectures that, at least in the lecture hall at Glasgow in 1749, Smith was blunt:

Little else is required to carry a state to the highest degree of affluence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things...

I believe that the later Adam Smith would note that “tolerable administration of justice” covers a lot of ground: the later books of *An Inquiry into the Nature and Causes of the Wealth of Nations* are very long indeed: Book III on how the historical development of Europe has let it to deviate from the System of Natural Liberty is 43 pages, Book IV on errors being made in 1776 by the governments of Europe is 273 pages, and Book V on what governments should and should not do is 276 pages—a total of 592 pages on what governments should, should not, and have unfortunately done, with only a total of 346 pages laying out Smith’s analytical system and its conclusions, among them that:

All governments which thwart this natural course, which force things into another channel, or which endeavor to arrest the progress of society at a particular point, are unnatural, and, to support themselves, are obliged to be oppressive and tyrannical...

As Heilbroner puts it:

The great enemy to Adam Smith's system is not so much government per se as monopoly—in any form. “People... meet[ing] together... [and] the conversation ends in... some diversion to raise prices.”... If the working of the market is trusted... anything that interferes... lowers social welfare. If, as in Smith’s time, no master hatter anywhere in England could employ more than two apprentices or no master cutler in Sheffield more than one, the market system cannot possibly yield its full benefits.... If, as in Smith's time, great companies are given monopolies of foreign trade, the public cannot realize the full benefits of cheaper foreign produce. Hence, says Smith, all these impediments must go...

2.5.2. Inequality in Wealth Prevents More Damaging Inequality in Power

Adam Smith's second way of minimizing the importance of economic inequality is to claim that it is a relatively gentle alternative to other forms of inequality that will emerge if economic inequality is reduced. Smith argues in Book III of the *Wealth of Nations* that the rise in inequality in market income and consumption went along with reduced inequality in social status and hierarchy—and in reduced societal violence as well. Great landlords who cannot earn and spend their wealth in the city will focus on arming and maintaining retainers, and the result will be that they will “make war according to their own discretion, almost continually upon one another, and very frequently upon the king; and the open country still continued to be a scene of violence, rapine, and disorder”. But once there are luxuries to be purchased by wealth earned by selling produce to the growing cities, “it was impossible that the number of their retainers should not as gradually diminish, till they were at last dismissed altogether”, and so peace came to the countryside.

As John Maynard Keynes was to write a century and a half later: “It is far better for a man to tyrannize over his bank balance than over his fellow citizens...”

2.5.3. On Inequality: Adam Smith Gets Alternately Snarky, Stoic, and Cynical

Snarkism: Adam Smith's third way of minimizing the importance of economic inequality is to snark. The aim of wealth is to make you happy. Smith thinks that what wealthy women wish they could buy is beauty, and what wealthy men wish they could buy is strength. But who are the beautiful and strong in England? Adam Smith tells us in an aside on nutrition on the good qualities of the potato:

The chairmen, porters, and coal-heavers in London, and those unfortunate women who live by prostitution, the strongest men and the most beautiful women perhaps in the British dominions, are said to be, the greater part of them, from the lowest rank of people in Ireland, who are generally fed with this root [the potato]...

The rich aren't doing a terribly good job of using their wealth to promote human flourishing, are they? And there is the implication that the rich are none too happy. We see Smith, and what he is doing here, I think.

Stoicism: Adam Smith's fourth way of minimizing the importance of economic inequality is to assume the philosophical pose of the stoic. One works hard. One sacrifices one's peace and leisure in order to get rich. And what does that get you as you age? Adam Smith writes that to the aging, looking back at a life in which they have sacrificed their ease and their happiness in order to gain wealth:

Power and riches appear then to be, what they are, enormous and operose machines contrived to produce a few trifling conveniencies to the body, consisting of springs the most nice and delicate, which must be kept in order with the most anxious attention, and which in spite of all our care are ready every moment to burst into pieces, and to crush in their ruins their unfortunate possessor. They are immense fabrics, which it requires the labour of a life to raise, which threaten every moment to overwhelm the person that dwells in them, and which while they stand, though they may save him from some smaller inconveniencies, can protect him from none of the severer inclemencies of the season. They keep off the summer shower, not the winter storm, but leave him always as much, and sometimes more, exposed than before, to anxiety, to fear, and to sorrow; to diseases, to danger, and to death...

Who then benefits from all the industry and toil of the upwardly-mobile? Adam Smith argues that it was, somewhat paradoxically, the poor. The rich sacrifice their true happiness to set in motion enterprises. And the commodities produced by those enterprises are principally consumed by the poor:

The earth by these labours of mankind has been obliged to redouble her natural fertility, and to maintain a greater multitude of inhabitants.... The proud and unfeeling landlord.... The capacity of his stomach bears no proportion to the immensity of his desires, and will receive no more than that of the meanest peasant. The rest he is obliged to distribute among those, who prepare, in the nicest manner, that little which he himself makes use of... all of whom thus derive from his luxury and caprice, that share of the necessaries of life, which they would in vain have expected from his humanity or his justice...

Cynicism: Fifth and last, Adam Smith minimizes the importance of economic inequality by claiming that there is little or nothing to be done about it. Human nature is such that people will seek to create, and then to obey, those whom they will call their superiors. It is the view expressed by Calvera in the movie *The Magnificent Seven*. Chico asks Calvera:

And the people of the village? What about them?

Calvera responds:

I leave that to you. Can men of our profession worry about that? If God did not want them to be sheared, he would not have made them sheep!

As Adam Smith puts it in his *Theory of Moral Sentiments*:

A stranger to human nature, who saw the indifference of men about the misery of their inferiors, and the regret and indignation which they feel for the misfortunes and sufferings of those above them, would be apt to imagine, that pain must be more agonizing, and the convulsions of death more terrible to persons of higher rank, than they are to those of meaner stations.

Upon this disposition... is founded the distinction of ranks, and the order of society. Our obsequiousness to our superiors more frequently arises from our admiration for the advantages of their situation, than from any

private expectations of benefit from their goodwill.... We desire to serve them for their own sake, without any recompense but the vanity or the honour of obliging them...

To attempt to eliminate inequality is, for Smith in his cynical mode, like trying to bail out the sea: make society equal, and people will find somebody to look up to, and then figure out a way to give their money away to the rich.

So that is Adam Smith: worry about prosperity and wealth, yes; worry about poverty and want, yes; worry about inequality, not so much.

Needless to say, Karl Marx did not agree that income inequality is not worth a great deal of concern. He saw inequality as a necessary product of the market economy, a necessary product that poisoned all of its fruits, and one that made hopes of eliminating or even reducing poverty and dire poverty vain.

3. Karl Marx's Starting Point: His Intuitions

3.1. Marx's Enthusiasm for the Market Economy

But back up. First, note that Karl Marx was much more enthusiastic about the market economy and the prospects for the societal division of labor than Smith had been. This enthusiasm had multiple causes:

- Marx lived 75 years later, in a time of much more rapid economic growth.
- Marx saw, much more clearly, technology as the magic force that it was going to be.

- Smith wanted to make his way in the world as an upwardly mobile outsider intellectual taking a measured view of things and entertaining his potential audience; Marx wanted to leave his mark upon the world—hence all his enthusiasms, and all his hates, were outsized.
- Marx was, in a very strange way, a Christian—albeit a massively heretical one: a firm believer in the redemption and total transformation not of an individual soul but of humanity at the hands of a benevolent power. As American literary critic Edmund Wilson was to write in 1940: a lot of Marx’s and Marxist writing makes no sense unless you replace phrases like “progress of history” and “dialectic of history” with “Providence” and “God”.

We see this enthusiasm show through in the passages of *Capital* in which Marx talks about the transformative work that is being done by the capitalist market economy. But it shines through much more clearly in Marx and Engels’s 1848 *Communist Manifesto*, in an extended passage that outstrips pretty much anything ever written by capitalism’s friends:

The bourgeoisie, historically, has played a most revolutionary part.... The bourgeoisie has disclosed how it came to pass that the brutal display of vigour in the Middle Ages, which reactionaries so much admire, found its fitting complement in the most slothful indolence. It has been the first to show what man’s activity can bring about. It has accomplished wonders far surpassing Egyptian pyramids, Roman aqueducts, and Gothic cathedrals; it has conducted expeditions that put in the shade all former Exoduses of nations and crusades.

The bourgeoisie cannot exist without constantly revolutionising the instruments of production, and thereby the relations of production, and with them the whole relations of society. Conservation of the old modes of production in unaltered form, was, on the contrary, the first condition of existence for all earlier industrial classes. Constant revolutionising of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones. All fixed, fast-frozen relations, with their train of ancient and venerable prejudices and opinions, are swept away, all new-formed ones

become antiquated before they can ossify. All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses his real conditions of life, and his relations with his kind.

The need of a constantly expanding market for its products chases the bourgeoisie over the entire surface of the globe. It must nestle everywhere, settle everywhere, establish connexions everywhere.

The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country. To the great chagrin of Reactionists, it has drawn from under the feet of industry the national ground on which it stood. All old-established national industries have been destroyed or are daily being destroyed. They are dislodged by new industries, whose introduction becomes a life and death question for all civilised nations, by industries that no longer work up indigenous raw material, but raw material drawn from the remotest zones; industries whose products are consumed, not only at home, but in every quarter of the globe. In place of the old wants, satisfied by the production of the country, we find new wants, requiring for their satisfaction the products of distant lands and climes. In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal interdependence of nations. And as in material, so also in intellectual production. The intellectual creations of individual nations become common property. National one-sidedness and narrow-mindedness become more and more impossible, and from the numerous national and local literatures, there arises a world literature.

The bourgeoisie, by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian, nations into civilisation. The cheap prices of commodities are the heavy artillery with which it batters down all Chinese walls, with which it forces the barbarians' intensely obstinate hatred of foreigners to capitulate. It compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it compels them to introduce what it calls civilisation into their midst, i.e., to become bourgeois themselves. In one word, it creates a world after its own image.

The bourgeoisie has subjected the country to the rule of the towns. It has created enormous cities, has greatly increased the urban population as compared with the rural, and has thus rescued a considerable part of the population from the idiocy of rural life. Just as it has made the country dependent on the towns, so it has made barbarian and semi-barbarian countries dependent on the civilised ones, nations of peasants on nations of bourgeois, the East on the West.

The bourgeoisie keeps more and more doing away with the scattered state of the population, of the means of production, and of property. It has agglomerated population, centralised the means of production, and has concentrated property in a few hands. The necessary consequence of this was political centralisation. Independent, or but loosely connected provinces, with separate interests, laws, governments, and systems of taxation, became lumped together into one nation, with one government, one code of laws, one national class-interest, one frontier, and one customs-tariff.

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, canalisation 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 labour?...

“What earlier century had even a presentiment that such productive forces slumbered in the lap of social labour?”

The *bourgeoisie* —the market economic system in which the capitalists, the business class, hold the reins and have the wealth—has, is, and will create the material abundance needed for humanity to pass through the gates of history and enter its proper destiny of utopia.

3.2. Marx's Loathing for the Market Economy

But by that same token the *bourgeoisie* has become the chief, indeed the only, obstacle keeping humanity in chains and away from that utopia. Rather than Smith's benign view that market-generated inequality was not a huge problem for the market economy, market-generated inequality is, for Marx, pretty much the only problem:

Modern bourgeois society, with its relations of production, of exchange and of property, a society that has conjured up such gigantic means of production and of exchange, is like the sorcerer who is no longer able to control the powers of the nether world whom he has called up.... The revolt of modern productive forces against modern conditions of production, against the property relations that are the conditions for the existence of the bourgeois and of its rule....

In proportion as the bourgeoisie, i.e., capital, is developed, in the same proportion is the proletariat, the modern working class, developed — a class of labourers, who live only so long as they find work, and who find work only so long as their labour increases capital. These labourers, who must sell themselves piecemeal, are a commodity, like every other article of commerce, and are consequently exposed to all the vicissitudes of competition, to all the fluctuations of the market. Owing to the extensive use of machinery, and to the division of labour, the work of the proletarians has lost all individual character, and, consequently, all charm for the workman. He 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....

The modern labourer... becomes a pauper, and pauperism develops more rapidly than population and wealth.... It becomes evident, that the bourgeoisie is unfit any longer to be the ruling class... because it is incompetent to assure an existence to its slave within his slavery... its existence is no longer compatible with society.... The development of Modern Industry, therefore, cuts from under its feet the very foundation on which the bourgeoisie produces and appropriates products. What the bourgeoisie therefore produces, above all, are its own grave-diggers. Its fall and the victory of the proletariat are equally inevitable...

Marx thought that the capitalist market economy with private property—private ownership of the means of production—was intolerable. Even though it had created enough wealth to easily eliminate poverty, it operated so poorly that it multiplied poverty. And so history would not long tolerate it.

3.3. Sources of Marx's Loathing

In many ways, Marx simply trying to make sense of what he saw. Not Marx but British liberal establishment icon John Stuart Mill wrote, in 1873:

It is questionable if all the mechanical inventions yet made have lightened the day's toil of any human being. They have enabled a greater population to live the same life of drudgery and imprisonment, and an increased number of manufacturers and others to make fortunes. They have increased the comforts of the middle classes...

Denser populations, more and richer plutocrats, a larger middle class, the same-old same-old of poverty and misery for the mass of humanity—those were all the fruits John Stuart Mill saw of the 1730-1870 Industrial Revolution. Whatever possibilities for a better world existed in the womb of better technology were stillborn. One word in Mill's paragraph stands out: *imprisonment*. The world Mill saw was not just a world of drudgery—where humans had to work long and tiring hours at crafts and tasks that came nowhere near to being sufficiently interesting to engage the full brainpower of an East African Plains Ape. The world Mill saw was not just a world in which most people were close to the edge of being desperately hungry, and were justifiably anxious about where their 2000 calories a day were going to come from next year—or net week. The world Mill saw was not just a world of low literacy—where most could only access the collective human store of knowledge, ideas, and

entertainments partially and slowly. It was a world in which humanity was *imprisoned*: not free. Humanity was in a dungeon, chained and fettered.

(Note that modern “libertarians” draw heavily both on John Stuart Mill as their founder and inspiration and on the Oxford inaugural lecture of Isaiah Berlin (1958): Two Concepts of Liberty, with its claim that “negative” and “positive” liberty are in “direct conflict”. They fundamentally misconstrue John Stuart Mill, fail at some fundamental level to grasp what Mill thought the libertarian project was. Berlin’s definition that “I am normally said to be free to the degree to which no man or body of men interferes with my activity... the area within which a man can act unobstructed by others...” is one in which Mill’s use of the word *imprisonment* makes no sense at all.)

How could this continuation of general poverty and misery *be*, given the enormous productivity of modern humanity resulting from the magic of the market and the magic of science and technology?

Marx tried to find out.

3.4. Marx’s Intellectual Journey

3.4.1. Student and German Hegel-Style Philosopher

Max started out as an intellectual, an academic, a student at the university in Berlin, trying to become a Hegel-style German philosopher. In 1841 wrote finished a dissertation, *The Difference Between the Democritean and Epicurean Philosophy of Nature*, analyzing and reanalyzing small differences in how different groups of Greek philosophers in the -4th century understood the foundation of the natural world—an interesting topic, especially considering that next to none of the works of Epicurus survived the decisions of the monks of the middle ages to erase useless documents and reuse the parchment for something else because parchment

was then expensive to buy. Demokritos had believed that at bottom nature was “atoms and the void”: individual particles bouncing and clinging to each other in space according to their laws of motion. Epikouros believed that there had to be more: the atoms had to be able to “swerve” to bring, chance, contingency, change, thought, and free will into the universe.

The young German-style philosopher Marx believed that philosophy was the master key to leaving his mark upon the world, because if he could write down the true ideas, they would then teach people how to think correctly about the world, and then people would act correctly and build utopia.

3.4.2. Youth and French-Style Political Activist

After finishing his dissertation, Marx concluded that he had been wrong about philosophy being the master key. The world, Marx decided, was controlled not by German-style philosophical thought but by French-style political organization and action. Rather than write abstract treatises about Thought and Being, Marx decided, he needed to write works that would get a wide readership laying out to people the injustices and stupidities of the system, and then organize a mass movement to stage a revolution—like the great French Revolution of 1789-1793—to make a better world, one of equal rights, individual freedom, democracy, the abolition of the feudal system and of slavery.

And so in the early 1840s Marx became a journalist and a political activist. He wrote pro-democracy and pro-liberal articles for the *Rhineland News*. The Prussian government shut down the *Rhineland News* at the request of the Czar of Russia. He moved to Paris, and edited and published with his soon to be ex-friend Arnold Ruge a one-issue publication, the *French-German Yearbook*, the first article of which was Marx’s *On the Jewish Question*: his first substantial publication. And in Paris Marx met Friedrich Engels, a rich young German whose family owned cotton mills both in Wuppertal, Germany, and Manchester, England.

Marx was certain that he was going to shake the world.

Consider that in 1847 Marx was one of fifteen members of the Communist Correspondence Committee of Brussels, which then decided to merge with the League of the Just—a group with 1000 members, perhaps, half in Paris and half in London. Marx could not afford to travel to London for the joint meeting at which the merger was accomplished. Somehow Friedrich Engels and he managed to wind up with the job of writing down the principles of their movement. And here is how he and Engels then, writing at the end of 1847, introduced their movement of 1015 to the world: here is the opening of the *Communist Manifesto*:

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? Two things result from this fact: I. Communism is already acknowledged by all European powers to be itself a power. II. 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...

Grandiose, much? But as best as we can tell, Marx and Engels did not see themselves as running a grift—not even a grift in the sense of exaggerating their powers so as to gain more readers and attention. As best we can tell, they meant every word.

It was after meeting Friedrich Engels—and probably as a result of that friendship and partnership—that Marx turned his attention that in spite of the victories of the great revolution in France and the advances of liberal politics in Britain the conditions of the mass of the people were getting

worse, or at least no better: individual freedom, equality under the law, a more-extended voting franchise, the abolition of the feudal system, and so forth did wonderful things for the commercial and manufacturing rich and for the middle classes, but seemed to have no positive impact on the working classes—the mass of the people. Somehow, the workings of the economic system were turning things that ought to advance human freedom and prosperity into their opposite.

3.4.3. Age and British-Style Economist

And so Marx decided, just as he decided earlier that German-style philosophy was going down the wrong track, that French-style political activism for liberal democracy was going down the wrong track. The right track required figuring out how to fix the economy, and that required becoming a British-style political economist...

3.4.4. The Layers Overlap

Marx's First Published Essay: You can see all three of these layers in Marx's first published essay, *On the Jewish Question*. There is the German-philosophical layer: interrogating the concept of what it means to be free. There is the French-activist layer: how to organize and legislate to attain freedom. And there is the British-economist layer: the real problems lie in the economy, and how the workings of the economy drive people to be cruel to each other in spite of society's overall prosperity. In *On the Jewish Question* Marx is pro-freedom. Jews are seeking equal rights. Many (including Marx's about to be ex-friend Bruno Bauer) claimed that Germany was a Christian country in which Jews had no standing to ask for equal rights until they joined it—that is, became Christian—and then work for separation of state from church. Marx disagreed, stating that Jews' status as Jews ought not to in any way be a bar to political emancipation.

But, Marx went on to write, political emancipation is not full human emancipation. In order to accomplish that, we need to transform the economy so that it no longer oppresses people.

Marx's Antisemitism: And then Marx's argument becomes unfortunate, because the way that the economy oppresses people, Marx says, is that it leads them to behave like he says Jews behave:

Let us consider the actual, worldly Jew—not the [observant] Sabbath Jew, as Bauer does, but the everyday Jew.

Let us not look for the secret of the Jew in his religion, but let us look for the secret of his religion in the real Jew.

What is the secular basis of Judaism? Practical need, self-interest. What is the worldly religion of the Jew? Huckstering. What is his worldly God? Money.

Very well then! Emancipation from huckstering and money, consequently from practical, real Judaism, would be the self-emancipation of our time.

An organization of society which would abolish the preconditions for huckstering, and therefore the possibility of huckstering, would make the Jew impossible. His religious consciousness would be dissipated like a thin haze in the real, vital air of society. On the other hand, if the Jew recognizes that this practical nature of his is futile and works to abolish it, he extricates himself from his previous development and works for human emancipation as such and turns against the supreme practical expression of human self-estrangement...

This was not a phrase Marx outgrew. A decade and a half later, in the mid 1850s, we find him writing things like:

Thus we find every tyrant backed by a Jew, as is every pope by a Jesuit. In truth, the cravings of oppressors would be hopeless, and the practicability of

war out of the question, if there were not an army of Jesuits to smother thought and a handful of Jews to ransack pockets...

Yet by far the majority of the big bankers of mid-nineteenth century Europe were Christians. If he were around today, Marx would be one of those people who, when he wants to say something negative about bankers, will always say “Goldman Sachs” and never say “Bank of America” or “J.P. Morgan” or “Credit Suisse”. And the correspondence between Marx and Engels in which they express their envy of fellow German socialist Ferdinand Lassalle is just... weird. Simon Sebag Montefiore summarizes:

Both... were wildly jealous of Lassalle, who was in many ways what they wished to be: a political star, bon vivant... showman... lover... supported financially by his mistress, Countess von Hatzfeld.... Lassalle recognized Marx's talent... helping him... get his work published.... Marx and Engels... repaid the favor with an endless stream of racist epithets... “stupid Yid”... “Jewboy”... “n—r”.... Lassalle... affair with a young woman engaged to a Wallachian prince whom he foolishly challenged to a duel. Lassalle was killed. Marx and Engels were astonished by the rise and fall of this flamboyant meteor.... Engels's reflections on Lassalle's intellectual and sexual power are particularly striking: “she didn't want his beautiful mind but his Jewish cock”.

Marx was soon going to change his language away from *On the Jewish Question's* claim that the big problem was that in market society all human beings acted like Jews: true human freedom would be thought of as the freedom of humanity from domination by the *bourgeoisie*, domination by the *business class*, rather than freedom from what Marx called “Jewishness”, and from an economic system that pushed people to act in what Marx called a “Jewish” way.

4. Karl Marx's Analytical System

4.1. On Reading *Capital*

4.1.1. Why Are We Making You Do This?

Marx spent the next 20 years of his life after writing *On the Jewish Question* trying to figure out the economics, and then write it down. And in 1867 he published *Capital: A Critique of Political Economy*. (Or, at least, he published volume I. He died before he finished volumes II and III to his satisfaction.) *Capital* is a big and difficult book. And we have set you to read it in order to gain a sense of what answers Marx arrived at: what he concluded and why, and whether his conclusions are correct.

Why have we set you to read it? We could, after all, digest it into twenty bullet points and say “these will be on the exam”.

4.1.2. The Skill of Reading Difficult Books

One answer is that the skill of reading difficult books is something we have to teach. The labor economists tell us that going to Berkeley, or to other elite American universities, is very good for you not just in terms of making you a more knowledgeable, thoughtful, and well-rounded person, but also in terms of inculcating you a lot of skills that give you many, many extra life choices. Chief among these skills are: presenting yourself in English in person; presenting yourself in English on paper; and figuring out how to get information out of all the written English words that appear before your eyes. Thus one thing we are here to do is to teach the valuable skill of reading hard and difficult but valuable books. And reading hard and difficult but valuable books with us on the teaching staff coaching you through the process is the best way to do that.

A difficult book has an author, who has something complex and non-transparent and important to say. The author has, in their mind's eye, a reader. If you are going to understand the author, you need first to become

that reader—to become the reader whom the author hopes to convince, and then watch the argument flow by while you yourself stand back thinking: does this really make sense. Odds are that if you cannot understand a passage well enough to figure out whether it is right or wrong, and if it is wrong how it is wrong, you have not yet made yourself over into the right kind of reader to make sense of the book. Most reading, after all, takes place between the ears.

A good rule of thumb when trying to make sense of an important author who has written a big, difficult book is to follow this strategy:

1. Read through the book, taking notes.
2. “Steelman” the argument, reworking it so that you find it as convincing and clear as you can possibly make it.
3. Find someone else—usually a roommate—and bore them to death by making them listen to you set out your “steelmanned” version of the argument.
4. Figure out what the weak points of this strongest-possible argument might be.
5. Decide what you think of the whole.
6. Then comes the task of cementing your interpretation, your *reading*, into your mind so that it becomes part of your intellectual panoply for the future. More on that—on review, “studying”, preparing for the exam, &c., anon.

4.1.3. The Value of Intellectual Landmarks

Note that we are reading Marx’s *Capital* not because Marx was a sole unique genius and *Capital* the key to the riddle of history. This isn’t a Holy Writ. This isn’t a Sacred Text. As I have written elsewhere: The idea that the best way to understand the political economy of the 1970s is through intensive, group, line-by-line study of an unfinished, inconsistent, and ambiguous text first drafted in the 1850s by a very smart, sometimes far-sighted, but definitely not divine human being--that that idea is already

a delusion peculiar to those who were a little too good in school in seeking truths from reading books rather than seeking truths from facts. It is not fully sane.

We are reading *Capital* because its arguments have resonated with a great many people over the years, have been judged as true or likely to be true by millions, and so gather together in one place a powerful current of ideas and claims that (a) might be true, (b) have been believed, and so (c) have been very influential. This is a floating marker bouy thrown into a broad social-intellectual current, and understanding where the marker bouy goes is the best way to gain an understanding of the current.

4.2. *Capital*, Parts I Through VI

Let me provide you with a brief guide in the form of my reactions on my last reading through *Capital*. And, truth by told, if I had made up the syllabus I would have assigned Parts VII and all but the last chapter of Part VIII, and dipped into Parts I-VI only for chapter 10, The Working Day, and a few selected passages. In place of the bulk of Parts I-VI, I would have substituted Marx's 1847 essay *Wage Labor and Capital*; Marx and Engels's 1848 *The Communist Manifesto*; Marx's early 1850s study of French politics and political economy, *The Eighteenth Brumaire of Louis Bonaparte*; and his late-in-life *Critique of the Gotha Program*.

So here I am going to rush through Parts I through VI of *Capital*. I do not have time now to do more. Plus, with the exception of Chapter 10, The Working Day, which is great and which is by itself worth the price of the book, these pieces of the book do not sing to me.

4.2.1. *Capital*, Part I: Commodities and Money

The start of the book is, at bottom, a Hegelian German-philosophical argument for the truth of something called the labor theory of value: that the *value* of a commodity is the human *labor* that it took, directly and indirectly, to produce it. If you were a Hegelian German philosopher you might well find that argument somewhat convincing. But you are not. And in fact there are no Hegelian German philosophers at all: the consensus of philosophers is that Hegel is an important figure in the history of philosophy, but that his concepts and frameworks have little worthwhile bite.

Moreover, the labor theory of value is wrong, or at least profoundly unhelpful for Marx.

It involved him in spending years of his life trying to resolve all kinds of problems—the reduction problem, the transformation problem, how to characterize the capital-intensity of the economy—that were at best time-wasting sinks of energy and at worst led to what were in retrospect obvious analytical errors.

I get little out of Part I. But maybe I have not remade myself into the right kind of reader?

4.2.2. *Capital*, Part II: The Transformation of Money into Capital

“Capital” as Not Things But a Process: As the book moves out of Marx’s Hegelian German-philosopher mode it becomes, I think, much more promising. People typically think of “capital” as stuff: machines, buildings, inventories, and so on. But, Marx argues—I think correctly—that capital is better thought of as a particular form of social power: wealth directing human activity by being itself directed toward acquiring more wealth. Capital is money that is in the business of making more money by

being used to buy and thus be transformed into commodities, and then back into more money. And, Marx argues, the most important commodity that capital is transformed into in its every-amplifying circular flow is labor-power, because the only reason that the system can produce profits on average—that the amount of capital can grow in general—is that the value of labor-power is less than the value of the commodities that that labor-power the capitalist purchases then creates.

But it takes Marx three chapters to say that.

Antisemitism Again: There is one piece of Part II that I should not pass over. It is:

The capitalist knows that all commodities, however tattered they may look, or however badly they may smell, are in faith and in truth money, are by nature circumcised Jews, and, what is more, a wonderful means for making still more money out of money...

What are “the Jews” doing here? Yep. This is a leftover from 1842, from the days when Marx and his soon to be ex-friends Moses Hess and Heinrich Heine were attacking “Jewishness” as the source of evil—cf. Heinrich Heine’s denunciation of his own city of Hamburg a:

a city of hagglers populated entirely by Jews, some baptized (I call all Hamburg’s inhabitants Jews)...

It’s people who behave like how Heine has been taught to think Jews behave who are the subject of his ire. Still, not at all a good look.

4.2.3. *Capital*, Part III: The Production of Absolute Surplus-Value

Formal Equality Masking Substantive Inequality and Oppression: Here Marx tries to peel back the mask that conventional liberal ideology

places over the face of the capitalist market economy. The market economy pretends that it is a realm of freedom: everyone is independent, everyone is unbound by ties of slavery and serfdom, everyone owns what he or she owns, everyone produces, buys, and sells, everyone does so on an equal legal footing...

And yet..., and yet..., and yet...

Marx tries to lay out how such a formally-equal form of social organization like the market economy nevertheless produces massive and mammoth inequality. He does so by diving into the working day and the labor process: How is it that the value of labor-power is less than the value of the commodities that that labor-power the capitalist purchases then creates? Why doesn't the worker just work for themselves and so reap the full value of the commodities they produce as the wage for their labor power?

However, Marx gets lost here in the swamp of the labor theory of value. And so the analytical apparatus he builds creaks. It is, I think, simply not up to the task.

Sources of Capitalist Social Power: I think, however, that it is easy to rescue Marx's argument by throwing his labor theory of value overboard and simply looking at average or market equilibrium prices. It is a fact that those without money have little social power. It is a fact that those without money have little ability to delay their purchases or sales in the hope that a better bargain will be. It is a fact that those who are desperate to buy or sell get a bad bargain. And it is a fact that workers are desperate to sell their labor, and then desperate to buy commodities now: they and their families have to eat.

But why can't workers just work for themselves? Why can't they be independent contractors, and so capture for themselves the surplus the

capitalist exacts from the fact that workers are desperate to work and so will work for less than the value of what they will produce because they need money now? They can—if they have enough of a stake to tied themselves over. But as time passes and as production becomes more and more capital-intensive and value chains become longer and longer, the size of the stake needed to remain independent grows. Some succeed in maintaining the needed stake, and even enlarging it: they maintain a precarious independence or become capitalists themselves, respectively. Most, from bad luck, imprudence, or a failure to keep pace with increasing scale, fall into the *proletariat*, and so have to strike bad bargains with employers in which they capture little of the surplus created in the process of production.

That, at least, would be a coherent theoretical argument.

Marx Wrote at the End of an Era of Wage Stagnation: It would run into the empirical problem that the wages of labor today in the Global North are 15 times higher than they were two centuries ago, and that in the world as a whole only 9% of people earn too little in the global market to escape from extreme poverty while 80% were in extreme poverty 200 years ago. But it would be a coherent argument. And it would accurately describe the world of an Industrial Revolution with little or no increase in real wages that Marx had seen in his life up to 1867. (Albeit that phase of the world economy was about to end: wages, worldwide, were then about to start rocketing upward.)

Nassau Senior's "Last Hour": Please, I ask you, do not miss the last part of chapter 9: Section 3: Senior's "Last Hour". Marx's evisceration of the argument in support of the cotton manufacturers of Britain by British classical economist Nassau Senior is a thing of beauty. And it was the source for the first economics article I ever wrote that would up published.

The Length of the Working Day: And read carefully and reread chapter 10. In chapter 10 the book descends from German Hegelian-philosophical and British classical-economic abstractions and theory into the condition fo the working class in England in the middle of the nineteenth century, and the book becomes great.

Creaky Abstractions Return: But in chapter 11 the abstractions and the creaky analytical apparatus are back.

Marx then finds himself on the defensive. The profits that different manufacturers realize have nothing to do with the amounts of surplus value that Marx calculates different manufacturers extract from their workers. Why are the profits of one manufacturer who has few workers and so can extract no surplus value from them just as high as the profits of another manufacturer sweating surplus value out of tens of thousands? How I this consistent with Marx's claim that profits in some sense *are*, or are the surface manifestation of the deep reality that is surplus value?

This is a natural question to ask. Asking it very much puts Marx very much on the defensive. So we find passages like:

The law... of surplus-value produced... clearly contradicts all experience based on appearance.... A cotton spinner, who... employs... little variable capital, does not, on account of this, pocket less profit or surplus-value than a baker... [with] much variable... capital. For the solution of this apparent contradiction, many intermediate terms are as yet wanted, as from the standpoint of elementary algebra many intermediate terms are wanted to understand that 0/0 may represent an actual magnitude.... It will be seen later how the school of Ricardo has come to grief over this stumbling block. Vulgar economy which, indeed, "has really learnt nothing," here as everywhere sticks to appearances in opposition to the law which regulates and explains them. In opposition to Spinoza, it believes that "ignorance is a sufficient reason"...

To paraphrase, Marx is here saying: My theory says the sun rises in the west, but you say it rises in the east. You are confused by the surface appearance of things. I have a deeper understanding, and I will present my answer later.

He never did present an explanation.

As I said, the analytical apparatus creaks, and is not up to the task.

4.2.4. Capital, Part IV: The Production of Relative Surplus-Value

No, you are not caught in some Groundhog Day-like time loop. If this sounds to you like he is starting to repeat himself, you are right. And if you ask what makes some surplus value “relative” and other surplus value “absolute”, you will not get a clear answer.

I think that when the working day is expanded or the standard of living is lowered, that is an increase in absolute surplus value. I think that when productivity rises, that is an increase in relative surplus value. I would have called Part III “The Working Day and Surplus Value” and Part IV “Worker Productivity and Surplus Value”.

Deskilling: But do not skip or skim—too much. The analytical core of this part is an important insight: The market economy produces enormous incentives to innovate in technology and to then invest in labor-saving machinery in order to raise productivity:

A most furious combat rages between the capitalists for their individual share in the market... proportional to the cheapness of the product.... This struggle gives rise to in the use of improved machinery for replacing labour-power... the introduction of new methods of production... [and] a forcible reduction of wages beneath the value of labour-power is attempted...

And this pressure has a powerful impact in potentially "deskilling" workers. Marx quotes Adam Smith here:

The understandings of the greater part of men are necessarily formed by their ordinary employments. The man whose whole life is spent in performing a few simple operations ... has no occasion to exert his understanding ... He generally becomes as stupid and ignorant as it is possible for a human creature to become.... The uniformity of his stationary life naturally corrupts the courage of his mind ... It corrupts even the activity of his body and renders him incapable of exerting his strength with vigour and perseverance in any other employments than that to which he has been bred. His dexterity at his own particular trade seems in this manner to be acquired at the expense of his intellectual, social, and martial virtues. But in every improved and civilized society, this is the state into which the labouring poor, that is, the great body of the people, must necessarily fall...

Hence Adam Smith calls for a major deviation from *laissez faire* in favor of publicly-funded and mandatory public education:

The common people... have little time to spare for education. Their parents can scarce afford to maintain them.... As soon as they are able to work they must apply to some trade by which they can earn their subsistence.... But though the common people cannot, in any civilised society, be so well instructed as people of some rank and fortune, the most essential parts of education, however, to read, write, and account, can be acquired at so early a period of life that the greater part even of those who are to be bred to the lowest occupations have time to acquire them before they can be employed in those occupations. For a very small expense the public can facilitate, can encourage, and can even impose upon almost the whole body of the people the necessity of acquiring those most essential parts of education... by establishing in every parish or district a little school, where children may be taught for a reward so moderate that even a common labourer may afford it; the master being partly, but not wholly, paid by the public.... It was in this manner, by facilitating the acquisition of their military and gymnastic exercises, by encouraging it, and even by imposing upon the whole body of the people the necessity of learning those exercises, that the Greek and Roman republics maintained the martial spirit of their respective citizens....

The gross ignorance and stupidity which, in a civilised society, seem so frequently to benumb the understandings of all the inferior ranks of people... [leaves them] mutilated and deformed in... [an] essential part of the character of human nature. Though the state was to derive no advantage from the instruction of the inferior ranks of people, it would still deserve its attention that they should not be altogether uninstructed. The state, however, derives no inconsiderable advantage from their instruction. The more they are instructed the less liable they are to the delusions of enthusiasm and superstition.... An instructed and intelligent people, besides, are always more decent and orderly.... They feel themselves, each individually, more respectable and more likely to obtain the respect of their lawful superiors.... They are more disposed to examine, and more capable of seeing through, the interested complaints of faction and sedition.... In free countries, where the safety of government depends very much upon the favourable judgment which the people may form of its conduct, it must surely be of the highest importance that they should not be disposed to judge rashly or capriciously...

I dare say you might well be able to convince Adam Smith, were he here with us today, to ban cable news, and Facebook.

But to return to Marx and to the cause of “deskilling”, rather than attempts to counteract its effects, we have Marx:

Along with the tool, the skill of the worker in handling it passes over to the machine. The capabilities of the tool are emancipated from the restraints inseparable from human labour-power. This destroys the technical foundation on which the division of labour in manufacture was based.... In so far as the division of labour reappears in the factory, it takes the form primarily of a distribution of workers among the specialized machines.... In handicrafts and manufacture, the worker makes use of a tool; in the factory, the machine makes use of him. There the movements of the instrument of labour proceed from him, here it is the movements of the machine that he must follow.... In the factory we have a lifeless mechanism... independent of the workers... incorporated into it as its living appendages.... The machine...

deprives the work itself of all content ... [The] conditions of work employ the worker...

Capitalism as a Vampire: And so innovation further diminishes workers' power to strike a good wage bargain, in chief a reasonable working day. Dead Labor—capital—or rather Undead Labor—fastens upon Living Labor like a vampire sucking his or her blood:

Partly by placing at the capitalists' disposal new strata of the working class previously inaccessible to him, partly by setting free the workers it supplants, machinery produces a surplus working population... compelled to submit to the dictates of capital.... Machinery sweeps away every moral and natural restriction on the length of the working day.... The most powerful instrument for reducing labour-time suffers a dialectical inversion and becomes the most unfailing means for turning the whole lifetime of the worker and his family into labour-time at capital's disposal for its own valorization.... Dead labour... dominates and soaks up living labour-power...

There is even, Marx claims, a large downside to laws to protect workers, to raise minimum wages, and to shorten the maximum working day. Such laws relatively disadvantage small-scale producers, and drive them into bankruptcy:

If the general extension of factory legislation to all trades for the purpose of protecting the working class both in mind and body has become inevitable, on the other hand, as we have already pointed out, that extension hastens on the general conversion of numerous isolated small industries into a few combined industries carried on upon a large scale; it therefore accelerates the concentration of capital and the exclusive predominance of the factory system. It destroys both the ancient and the transitional forms behind which the dominion of capital is still partially hidden, and replaces them with a dominion which is direct and unconcealed...

What is worse:

The immense impetus given to technical improvement by the limitation and regulation of the working day is to increase the anarchy and the proneness to catastrophe of capitalist production as a whole, the intensity of labour, and the competition of machinery with the worker. By the destruction of small-scale and domestic industries it destroys the last resorts of the 'redundant population', thereby removing what was previously a safety-valve for the whole social mechanism...

“The Worse, the Better”: But there is a "the worse, the better" apocalyptic silver lining here:

By maturing the material conditions and the social combination of the process of production, it matures the contradictions and antagonisms of the capitalist form of that process, and thereby ripens both the elements for forming a new society and the forces tending towards the overthrow of the old one...

I tend to be very very suspicious of “the worse, the better” arguments.

Karl Marx’s Theory of History: Note also that it is in this Part IV of *Capital* that we get Karl Marx's big-picture theory of history and political economy:

My view is that each particular mode of production, and the relations of production corresponding to it at each given moment, in short 'the economic structure of society', is 'the real foundation, on which arises a legal and political superstructure and to which correspond definite forms of social consciousness' [mental conceptions, if you like], and that 'the mode of production of material life conditions the general process of social, political, and intellectual life...

And it is in this part of *Capital* that we have get a very brief glimpse into Marx's speculations about the business cycle:

The factory system’s tremendous capacity for expanding with sudden immense leaps, and its dependence on the world market, necessarily give

rise to the following cycle: feverish production, a consequent glut on the market, then a contraction of the market, which causes production to be crippled. The life of industry becomes a series of periods of moderate activity, prosperity, over-production, crisis and stagnation. The uncertainty and instability to which machinery subjects the employment, and consequently the living conditions, of the workers becomes a normal state of affairs...

4.2.4. *Capital*, Part V: The Production of Absolute and Relative Surplus-Value:

Here Marx is indeed repeating himself. You *are* trapped in some Groundhog Day-like scenario. This time through reading these chapters, my major thought was: Wouldn't Engels pay for an editor?...

4.2.5. *Capital*, Part VI: Wages

Once again, I find Marx in need of an editor...

4.2.6. Summing Up *Capital*, Parts I-VI

In summary, with the exception of Chapter 10, The Working Day, Parts I-VI of *Capital* do not sing for me.

Part I makes Hegelian philosophical intellectual moves to construct an argument for the labor theory of value, an argument which I do not see as valid and which leads to a false conclusion. Part II makes the important point that capital is not a thing but rather a set of relationships or processes that generate a certain kind of economy with its patterns of production, distribution, and dynamic evolution. But this seems obvious to me: it is something I know in my bones. Marx presents it with what seems to me to be a lot of fluff and mystification.

Parts III-VI develop and use his analytical framework and, with the exception of chapter 10 on the working day, I find the framework creaky, inadequate, and often misleading: labor theory of value, rates of surplus value, organic composition of capital, and hidden behind the curtain the unsolved and unsolvable analytical problems of reduction and transformation.

It is only in Part VII that the book begins to sing to me.

4.3. Capital, Part VII: The Accumulation of Capital

This is where the book starts to sing—to me at least.

4.3.1. The *Bourgeoisie* Is the Ruling Class

The first important thing I get out of Part VII is that, to quote from the *Communist Manifesto*, “the executive of the modern state is a committee for managing the affairs of the _business class”. Wealth speaks loudly, and influences the government to arrange things for the convenience of wealth—to keep wages low, and workers available.

Marx quotes a protest from *The Times* of London against the demands that capital made upon Britain in 1863. The editors of *The Times* wrote, bringing the snark:

Mr. Edmund Potter is so impressed with the exceptional and supreme importance of the cotton masters that, in order to preserve this class and perpetuate their profession, he would keep half a million of the labouring class confined in a great moral workhouse... ‘Is it worth while keeping the machinery in order?’ again asks Mr. Potter.... We must confess that we do not think it ‘worth while,’ or even possible, to keep the human machinery in

order—that is to shut it up and keep it oiled till it is wanted. Human machinery will rust under inaction, oil and rub it as you may. Moreover, the human machinery will, as we have just seen, get the steam up of its own accord, and burst or run amuck.... The time is come when the great public opinion of these islands must operate to save this ‘working power’ from those who would deal with it as they would deal with iron, and coal, and cotton...

Marx claims that *The Times* was only joking:

The Times’ article was only a *jeu d’esprit*. The “great public opinion” was, in fact, of Mr. Potter’s opinion, that the factory operatives are part of the movable fittings of a factory. Their emigration was prevented. They were locked up in that “moral workhouse,” the cotton districts, and they form, as before, “the strength” of the cotton manufacturers of Lancashire...

(In fact, the *Times* was not joking: it was representing a conservative viewpoint, and attempting to construct an alliance in which the workers and the aristocracy would tax the *business class* to boost the living standards of the working class and the social power of the aristocracy.)

But the message is, I think, clear and correct. It is: the bourgeoisie will use it to control all of the state to keep wages low enough the profits are high, but it is these high profits that then flow back into the stock of capital and give the business class its dominance over society. This piece of chapter 23 is, in a nutshell, the argument of the book, *Capital in the Twenty-First Century*, with which Thomas Piketty made a splash five years ago.

4.3.2. Alienation: The Things We Make Do Not Serve, But Rather Master Us

Plus this section on accumulation makes the very important Marxist point. The point is that, under capitalism, things are inverted: rather than people riding the economy to achieve their purposes, the economy—things—are

in the saddle, and riding humanity. Capital is made up of things the workers produce. It is what humans make. It is their creation. It is their work. But what the workers produce then does not advance their interests, or make them happy. Instead, what the workers have produced somehow escapes from human control. It then imposes itself on people, and bosses them around.

Note that it is not that the capitalists steal the freedom for themselves. The capitalists do not have any freedom either. They have to act like capitalists: push wages down, speed up the assembly line, and reinvest their profits; and if they do not, then they fall behind, become uncompetitive, go bankrupt, and vanish as they become proletarians as well.

This is Marx's theory of alienation. Marx thinks that you ought to be a human being in control of your life. The things you make are things that help and assist you. But instead, somehow, under the rule of the bourgeoisie, the things you make become alien powers outside yourself and then control and dominate.

There is a joke category called the Russian reversal: “In America, everyone watches television; in Soviet Russia, television watches you.” This is, in a nutshell, Marx's concept of alienation. Capital is not just unfair and unequal, it is also inhuman. It robs people of the freedom that they ought to have by virtue of their productivity.

4.3.3. This Capitalist System Worsens as It Carries It Self Forward into the Future

Remember, always, to Marx, capitalism is a system. It works, in the sense that it carries itself forward into the future:

Therefore, the worker himself constantly produces objective wealth, in the form of capital, an alien power that dominates and exploits him; and the capitalist just as constantly produces labour-power, in the form of a subjective source of wealth which is abstract, exists merely in the physical body of the worker, and is separated from its own means of objectification and realization; in short, the capitalist produces the worker as a wage-labourer. This incessant reproduction, this perpetuation of the worker, is the absolutely necessary condition for capitalist production.... The capitalist process of production, therefore, seen as a total, connected process, i.e. a process of reproduction, produces not only commodities, not only surplus-value, but it also produces and reproduces the capital-relation itself; on the one hand the capitalist, on the other the wage-labourer...

As the system carries itself forward into the future, it changes. It, Marx argues, becomes even worse and more destructive. The gap between what society could be given the magical productivity of human labor augmented by science and technology and what society is grows beyond measure.

Accumulation of capital leads to innovation and the invention of new kinds of more productive machines. The capital intensity of production rises. And as the capital intensity of production rises, downward pressure on workers' wages rises as well.

Marx thinks he has an airtight argument that this will be so:

Since the demand for labour is determined not by the extent of the total capital but by its variable constituent alone, that demand falls progressively with the growth of the total capital, instead of rising in proportion to it, as was previously assumed. It falls relatively to the magnitude of the total capital, and at an accelerated rate, as this magnitude increases. With the growth of the total capital, its variable constituent, the labour incorporated in it, does admittedly increase, but in a constantly diminishing proportion... constantly produces, and produces indeed in direct relation with its own energy and extent, a relatively redundant working population, i.e. a population which is superfluous to capital's average requirements for its own valorization, and is therefore a surplus population...

Marx believes that machinery is not a complement to but a substitute for labor. Here, once again, Marx has been betrayed by the labor theory of value. The century and a half after his writing of *Capital* has seen wages rise fifteen fold. It has seen inequality rise, fall, and more recently rise again. But even now, at our current inequality peak, it is only back to the level it was in mid-nineteenth century Britain here in the United States, and is lower elsewhere in the global north.

Not a Human Logic, But Its Own Mad Logic: Why does the system work as it carries itself into the future—as it “reproduces itself”, as Marx likes to say? The rapid advances of science and technology on the one hand in the scope of the collective social division of labor mediated by the market on the other greatly increase the productive power of humanity. Why are these increased productive powers turned not to the greater good but to making greater evils? Marx has an answer: His answer is that the wishes and wills of humans have no purchase once the capitalist machine has started rolling. People must fit into their slots, and do what their slot in the system requires that they do. Workers who do not sacrifice their essential humanity to a hard, dehumanizing, and low-paying job find themselves and their families at death's door. Capitalists who do not devote every moment to raising productivity, pushing down wages, and reinvesting their larger profits to increase their scale of operations faster find themselves outcompeted. They wind up going bankrupt—and then their children join the working class proletariat. Thus, according to the principle that the purpose of a system is what it does, the purpose of the capitalist system is maximum investment and capital accumulation:

Accumulation for the sake of accumulation, production for the sake of production: this was the formula in which classical economics expressed the historical mission of the bourgeoisie in the period of its domination. Not for one instant did it deceive itself over the nature of wealth's birth-pangs. But what use is it to lament a historical necessity? If, in the eyes of classical economics, the proletariat is merely a machine for the production of

surplus-value, the capitalist too is merely a machine for the transformation of this surplus-value into surplus capital...

Mark thinks he has an iron and water-tight argument that this process of investment in capital accumulation greatly raises the stock of instruments of production that workers use—no, in capitalist factories as Marx sees them workers do not utilize machines, instead, machines use up workers—while reducing the funds available to be spent paying the wages of the workers:

The law of the progressive growth of the constant part of capital in comparison with the variable part is confirmed at every step ... by the comparative analysis of the prices of commodities, whether we compare different economic epochs or different nations in the same epoch. The relative magnitude of the part of the price which represents the value of the means of production, or the constant part of the capital, is in direct proportion to the progress of accumulation, whereas the relative magnitude of the other part of the price, which represents the variable part of the capital, or the payment made for labour, is in inverse proportion to the progress of accumulation...

Thus, for Marx, it is inconceivable that there might be a permanent, durable increase in the average wage level as the process of capital accumulation proceeds and as capitalism-the-sytem carries itself forward into the future. Supply-and-demand could not, and marks his analysis, lead to such an outcome, for supply-and-demand work in the context of a ever-growing surplus population that makes up an industrial reserve army of unemployed and hungry-for-jobs workers:

The industrial reserve army, during the periods of stagnation and average prosperity, weighs down the active army of workers; during the periods of over-production and feverish activity, it puts a curb on their pretensions. The relative surplus population is therefore the background against which the law of the demand and supply of labour does its work. It confines the field of action of this law to the limits absolutely convenient to capital's drive to exploit and dominate the workers...

In fact, for Marx, it is inconceivable the average wage level will manage to stay above bare subsistence:

The most diverse machines are now applied to the manufacture of the machines themselves.... The labourers employed in machine factories can but play the role of very stupid machines alongside of the highly ingenious machines.... To sum up: the more productive capital grows, the more it extends the division of labour and the application of machinery; the more the division of labour and the application of machinery extend, the more does competition extend among the workers, the more do their wages shrink together.... A mass of small business men and of people living upon the interest of their capitals is precipitated into the ranks of the working class.... Thus the forest of outstretched arms, begging for work, grows ever thicker, while the arms themselves grow every leaner...

Thus, as Marx sees it, the more powerful and productive new workers become, the more dominated and exploited workers become. :Workers become not men but fragments of men: hands, no more than appendages to the machine. And working to make things becomes not a source of joy at accomplishment but into an alienated torment:

We saw in Part IV, when analysing the production of relative surplus-value, that within the capitalist system all methods for raising the social productivity of labour are put into effect at the cost of the individual worker; that all means for the development of production undergo a dialectical inversion so that they become means of domination and exploitation of the producers; they distort the worker into a fragment of a man, they degrade him to the level of an appendage of a machine, they destroy the actual content of his labour by turning it into a torment; they alienate...

In Marx's analytical framework, wealth, productivity, and misery all grow together. Greater productivity produces greater wealth. And then greater wealth produces greater misery, because under capitalism wealth is used to dominate and, if the capitalist is going to survive, he must use his

power to dominate to push down wages and worsen working conditions so that he can not consume but invest his profits to produce an even greater scale of production and even greater productivity:

In proportion as capital accumulates, the situation of the worker, be his payment high or low, must grow worse. Finally, the law which always holds the relative surplus population or industrial reserve army in equilibrium with the extent and energy of accumulation rivets the worker to capital more firmly than the wedges of Hephaestus held Prometheus to the rock. It makes an accumulation of misery a necessary condition, corresponding to the accumulation of wealth. Accumulation of wealth at one pole is, therefore, at the same time accumulation of misery, the torment of labour, slavery, ignorance, brutalization and moral degradation at the opposite pole, i.e. on the side of the class that produces its own product as capital...

What is going to bring an end to this mad process?

4.4. *Capital*, Part VIII: Primitive Accumulation

At the end of Part VII, Marx had completed his analysis of how the purpose of capitalism-as-a-system was simply capital accumulation, which produced ever more productivity, wealth, and misery, all three growing together, and all three growing together at an ever-increasing pace. The natural next step in Marx's argument would be for him to lay out what he forecasts will bring this mad sorcerers-apprentice process to an end.

That, however is not what we get. We turn to the next page, and its title of "Part VIII: Primitive Accumulation" tells us that Marx is now jumping back to the historical beginnings of the process of capitalist capital accumulation.

He needed an editor.

Fortunately, this part is misnamed. “Primitive” accumulation is supposed to be about how the juggernaut of capitalism initially gets rolling. This part starts out being about that. But it then moves on, and is in its later stages also about much, much more.

4.4.1. “Primitive Accumulation” Proper

Part VIII does start out with its expressed topic. It hammers home the difference between the myth that the capitalist tell themselves and others, and the reality with which the system came into being. The myth is as follows, as Marx brings the snark:

Its origin is supposed to be.... In times long gone by there were two sorts of people; one, the diligent, intelligent, and, above all, frugal elite; the other, lazy rascals.... Thus it came to pass that the former sort accumulated wealth, and the latter sort had at last nothing to sell except their own skins. And from this original sin dates the poverty of the great majority that, despite all its labour, has up to now nothing to sell but itself, and the wealth of the few that increases constantly although they have long ceased to work. Such insipid childishness is every day preached to us in the defence of property...

The reality is very very different:

The process which creates the capital-relation can be nothing other than the process which divorces the worker from the ownership of the conditions of his own labour; it is a process which operates two transformations, whereby the social means of subsistence and production are turned into capital, and the immediate producers are turned into wage-labourers. So-called primitive accumulation, therefore, is nothing else than the historical process of divorcing the producer from the means of production. It appears as ‘primitive’ because it forms the pre-history of capital, and of the mode of production corresponding to capital...

And it is not just that history happened this way in some ethically neutral way. Great crimes were committed. And great was the role played by political corruption. Marx reviews British history starting in 1500, running from Henry VIII Tudor to William III Orange, and beyond:

The spoliation of the Church's property, the fraudulent alienation of the state domains, the theft of the common lands, the usurpation of feudal and clan property and its transformation into modern private property under circumstances of ruthless terrorism, all these things were just so many idyllic methods of primitive accumulation. They conquered the field for capitalist agriculture, incorporated the soil into capital [a very interesting phrase], and created for the urban industries the necessary supplies of free and rightless proletarians...

The Glorious Revolution... brought into power, along with William of Orange, the landed and capitalist profit-grubbers. They inaugurated the new era by practising on a colossal scale the thefts of state lands which had hitherto been managed more modestly. These estates were given away, sold at ridiculous prices, or even annexed to private estates by direct seizure ... The Crown lands thus fraudulently appropriated, together with the stolen Church estates, ... form the basis of the present princely domains of the English oligarchy...

Employ the power of the state, the concentrated and organized force of society, to hasten, as in a hothouse, the process of transformation of the feudal mode of production into the capitalist mode, and to shorten the transition. Force is the midwife of every old society which is pregnant with a new one. It is itself an economic power...

Not just market buying-and-selling bring capitalism into being. Brutality and force are the “midwife” of every transformation from one kind of society to another—here the origins of society based on the capitalist mode of production born from the womb of the previous pattern of society based on the feudal mode of production:

Unleash[ing] the ‘eternal natural laws’ of the capitalist mode of production, to complete the process of separation between the workers and the conditions of their labour, to transform, at one pole, the social means of production and subsistence into capital, and at the opposite pole, the mass of the population into wage-labourers, into the free ‘labouring poor’, that artificial product of modern history.... [Feudalism] has to be annihilated; it is annihilated. Its annihilation, the transformation of the individualized and scattered means of production into socially concentrated means of production, the transformation, therefore, of the dwarf-like property of the many into the giant property of the few, and the expropriation of the great mass of the people from the soil, from the means of subsistence and from the instruments of labour, this terrible and arduously accomplished expropriation of the mass of the people forms the pre-history of capital...

4.4.2. Freedom Inverted: Freedom as Powerlessness

Capitalists and their ideologists write about how everybody is free in a capitalist economy: slavery and serfdom have both been abolished, so that workers can go where they want, take the jobs they want, and so raise society’s productivity. Marx reacts with very heavy-handed snark. The serf was not free: he was tied to the land, and had to stay there and present his lord with the customary feudal rents specified under that form of land tenure. The coming of capitalism frees the serf: he is no longer required to stay on his inherited piece of land, and farm it. But the coming of capitalism “frees” the serf in other sense: he is “freed” from his connection with the land, which now belongs to the landlord. And he can do what he used to do—farm the land—only if he can strike a bargain and rent it from the landlord. He is, in the words of Milton and Rose Director Friedman, “free to choose”. But he is also free to lose. And—if he cannot strike a bargain to rent the land and then cannot strike a bargain to work as an employee—free to starve. He is no longer constrained by the web of obligations that constrained him under the feudal or the petty-bourgeois mode of production. But by the same token that freedom from social position and social ties may well reduce his bargaining power when he goes to the labor market.

And that bargaining-power reduction is essential, in Marx's view. Capitalism can only form if there are a lot of workers who have lost their feudal status as serfs who are both owned by and own the land, and lost their petty-bourgeois status as artisans or merchants who own their tools and their businesses. Only if there is a *proletariat*—a large group of workers who must find a capitalist employer, and must do so under conditions in which workers have very little bargaining power:

The starting point of the development that gave rise to the wage labourer as well as to the capitalist, was the servitude of the labourer. The advance consisted in a change of form of this servitude, in the transformation of feudal exploitation into capitalist exploitation.... Revolutions are epoch-making that act as levers for the capital class in course of formation; but, above all, those moments when great masses of men are suddenly and forcibly torn from their means of subsistence, and hurled as free and "unattached" proletarians on the labour-market...

4.4.3. Increasing Returns To Scale

Then—without a new part heading—Marx leaves the origin of capitalism behind, and begins analyze the consequence of increasing returns to scale: that the larger the business, the higher its productivity. Increasing productivity with larger-scale production produces very large-scale firms indeed as the system carries itself into the future:

One capitalist always strikes down many others. Hand in hand with this centralization, or this expropriation of many capitalists by a few, other developments take place on an ever-increasing scale, such as the growth of the co-operative form of the labour process, the conscious technical application of science, the planned exploitation of the soil, the transformation of the instruments of labour into instruments of labour only usable in common, the economising of all means of production by their use as means of production of combined, socialised labour, the entanglement of

all peoples in the net of the world market, and with this, the international character of the capitalistic regime...

4.4.4 Increasing Immiserization

And, as Marx had argued in the previous part on capital accumulation, increasing accumulation, scale, and productivity will bring with it increasing immiserization: And over time the world becomes worse and worse:

Along with the constantly diminishing number of the magnates of capital, who usurp and monopolise all advantages of this process of transformation, grows the mass of misery, oppression, slavery, degradation, exploitation...

But the very fact that capitalist firms become larger and larger greatly reduces the relative difficulty of the ultimate transition: Moving to socialism should not be very difficult at all, because most economic activity will, as capitalism approaches its end, take place not through markets but under the aegis of a few giant monopolistic highly-productive firms. It was difficult to turn feudalism into capitalism by dissolving feudal ties and then separating people from the lands and the business that they had some rights to. It will be easy to simply expropriate the stocks and bonds and nationalize a few giant companies:

The transformation of scattered private property, arising from individual labour, into capitalist private property is, naturally, a process, incomparably more protracted, violent, and difficult, than the transformation of capitalistic private property, already practically resting on socialised production, into socialised property. In the former case, we had the expropriation of the mass of the people by a few usurpers; in the latter, we have the expropriation of a few usurpers by the mass of the people...

And, in Marx's system, this transformation into socialism will be overwhelmingly popular. For as capitalism will have moved itself into the

future, creating increasing productivity, wealth, and immiserization, capitalism will also increasingly produce its own gravediggers:

With this... grows the revolt of the working class class constantly increasing in numbers, and trained, united and organized by the very mechanism of the capitalist process of production. The monopoly of capital becomes a fetter upon the mode of production which has flourished alongside and under it. The centralization of the means of production and the socialization of labour reach a point at which they become incompatible with their capitalist integument...

Then the New Jerusalem arrives, descending from heaven “prepared as a bride adorned for her husband. And I heard a great voice out of heaven saying, ‘Behold, the tabernacle of God is with men, and he will dwell with them, and they shall be his people, and God himself shall be with them, and be their God. And God shall wipe away all tears from their eyes; and there shall be no more death, neither sorrow, nor crying, neither shall there be any more pain: for the former things are passed away...’”:

This integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated...

5. The Impact of Karl Marx

5.1. Ideas and Movements Shook the World

Karl Marx had his vision.

5.1.1. Marx’s Vision

His vision was about how the Industrial Revolution would transform everything and be followed by a Great Communist Social Revolution—a revolution greater than the political French Revolution—that would wash us up on the shores of Utopia.

The mature Marx saw the economy as the key to history: every forecast and historical interpretation must be based on the economy's logic of development. This project as carried forward by others ran dry. Sometimes—as in, say, Eric Hobsbawm's books on the history of the nineteenth century—this works relatively well. But sometimes it led nowhere. The writing of western European history as the rise, fall, and succession of ancient, feudal, and bourgeois modes of production is a fascinating project. But the only person to try it seriously soon throws the Marxist apparatus over the side, where it splashes and sinks to the bottom of the sea. Perry Anderson's *Passages from Antiquity to Feudalism* and *Lineages of the Absolutist State* are great and fascinating books, but they are not Marxist. They are Weberian. The key processes in Anderson's books concern not “modes of production” but rather “modes of domination.”

5.1.2. The Marxist Movement

And when Marx and Engels's writings became sacred texts for the world religion called Communism, things passed beyond the absurd into tragedy and beyond tragedy into horror: the belief that the logic of development of the economy was the most important thing about society became entangled in the belief that Joe Stalin or Mao Zedong or Pol Pot or Kim Il Sung or Fidel Castro was our benevolent master and ever-wise guide.

For this, Robert Heilbroner in *The Worldly Philosophers* writes that Marx deserves considerable blame. It was not so much that his ideas were tyrannical and despotic (although to call the first immediate stage of the transformation of society he envisioned the “dictatorship of the proletariat” turned out to be most unfortunate). It was Marx's organizational and political practice, and thus the model he set that so many others were later to imitate:

More important... was the peculiar tone which Marx injected into working class affairs. This was the most quarrelsome and intolerant of men, and from the beginning he was unable to believe that any one who did not follow his line of reasoning could possibly be right. As an economist his language was precise, as a philosopher historian it was eloquent, as a revolutionary it was scurrilous. He called his opponents “louts”, “rascals”, even “bedbugs”...

5.2. Three Faces of Karl Marx

But let us go back to a time before Marxism lost its innocence. Let us go back and look at the thinker, Karl Marx, and what he actually wrote and thought.

5.2.1. A Three-Stage Intellectual Trajectory

Karl Marx had a three part intellectual trajectory. He started out as a German philosopher; became a French-style political activist, political analyst, and political historian; and ended up trying to become a British-style economist and economic historian. At the start of his career he believed that all we had to do to attain true human emancipation was to *think correctly* about freedom and necessity. Later on he recognized that thought was not enough: that we had to organize, politically. And then in the final stage he thought that the political organization had to be with and not against the grain of the truly decisive factor, the extraordinary economic changes that the coming of the industrial revolution was bringing to the world.

At each stage Marx had the enthusiasm of the true-believing convert: it was never the case that philosophy alone could bring utopia, it was never the case that after the revolution all problems will be resolved, and it was never the case that the underlying economic mode of production was the base and that its evolution drove the shape of the superstructure.

Karl Marx never completed the intellectual trajectory he set himself on. He tried as hard as he could to become a British-style classical economist—a “minor post-Ricardian theorist” as Paul Samuelson once joked—but he did not make it: the late, mature Marx is mostly an economist and economic historian, but he is also part political activist—and also part prophet.

5.2.2. Marx the Prophet

Marx the prophet, here is a sample: Marx on India:

The ruling classes of Great Britain.... The aristocracy wanted to conquer [India], the moneyocracy to plunder it, and the millocracy to undersell it. But now the... millocracy have discovered that the transformation of India into a reproductive country has become of vital importance.... They intend now drawing a net of railroads over India... exclusive view of extracting at diminished expenses the cotton and other raw materials for their manufactures....

You cannot maintain a net of railways over an immense country without introducing all those industrial processes necessary to meet the immediate and current wants of railway locomotion, and out of which there must grow the application of machinery to those branches of industry not immediately connected with railways. The railway-system will therefore become, in India, truly the forerunner of modern industry.... All the English bourgeoisie may be forced to do will neither emancipate nor materially mend the social condition of the mass of the people, depending not only on the development of the productive powers, but on their appropriation by the people. But what they will not fail to do is to lay down the material premises.... Has the bourgeoisie ever done more? Has it ever effected a progress without dragging individuals and people through blood and dirt, through misery and degradation?...

The bourgeois period of history has to create the material basis of the new world... universal intercourse founded upon the mutual dependency of

mankind... the development of the productive powers of man.... When a great social revolution shall have mastered the results of the bourgeois epoch... and subjected them to the common control of the most advanced peoples, then only will human progress cease to resemble that hideous, pagan idol, who would not drink the nectar but from the skulls of the slain...

Large-scale prophecy of a glorious utopian future is bound to be false when applied to this world. The New Jerusalem does not descend from the clouds “prepared as a Bride adorned for her Husband”. And a Great Voice does not declare: “I shall wipe away all tears from their eyes; and there shall be no more death, neither sorrow, nor crying, neither shall there be any more pain: for the former things are passed away...” But Marx clearly thought at some level that it would: he never got to the island of Patmos on which John the Divine lived, but there is a sense that he got too much into the magic mushrooms.

5.2.3. Marx the Political Activist: The Ugly

Marx the political activist. As I see it, he had three big ideas:

1. that while previous systems of hierarchy and domination maintained control by hypnotizing the poor into believing that the rich in some sense “deserved” their high seats in the temple of civilization, capitalism would—replace masked exploitation by naked exploitation. Then the scales would fall from people's eyes, for without its masking ideological legitimations unequal class society could not survive. This idea seems to me to be completely wrong. Cf. Antonio Gramsci, *passim*, on legitimation and hegemony. See also Fox News.
2. that even though the ruling class could appease the working class by using the state to redistribute and share the fruits of economic growth it would never do so. They would be trapped by their own ideological legitimations--they really do believe that it is in some

sense “unjust” for a factor of production to earn more than its marginal product. Hence social democracy would inevitably collapse before an ideologically-based right-wing assault, income inequality would rise, and the system would collapse or be overthrown. The *Wall Street Journal* editorial page works day and night 365 days a year to make Marx’s prediction come true. But I think this, too, is wrong.

3. that factory work was the wave of the future, and factory work-- lots of people living in cities living alongside each other working alongside each other--would lead people to develop a sense of their common interest. Hence people would organize, revolt, and establish a free and just society in a way that they could not back in the old days when the peasants of this village were suspicious of the peasants of that one, and peasants formed not a class for themselves but, rather, a sack of potatoes which can attain no organization but simply remains a sack of potatoes. Here I think Marx mistook a passing phase for an enduring trend. Active working-class consciousness as a primary source of loyalty and political allegiance was never that strong. Nation and ethnos trump class, never more so that when the socialists of Germany told their emperor in 1914 that they were Germans first and Marxists second.

Add to these the fact that Marx's idea of the "dictatorship of the proletariat" was clearly not the brightest light on humanity's tree of ideas, and I see very little in Marx the political activist that is worthwhile today.

5.2.4. Marx the Economist: The Good

Marx the economist—well, Marx the economist had six big things to say, some of which are very valuable even today across more than a century and a half, and some of which are not. I would call them the three goods and the three bads:

1. Marx the economist was among the very first to recognize that the fever-fits of financial crisis and depression that afflict modern market economies were not a passing phase or something that could be easily cured, but rather a deep disability of the system--as we are being reminded once again right now, this time with Ben Bernanke, Tim Geithner, and Larry Summers in the Hot Seats. Marx pointed the spotlight in the right direction here. However, I don't think that his theory of business cycles and financial crises holds up. Marx thought that business cycles and financial crises were evidence of the long-term unsustainability of the system. We modern neoliberal economists view it not as a fatal lymphoma but rather like malaria: Keynesianism—or monetarism, if you prefer—gives us the tools to transform the business cycle from a life-threatening economic yellow fever of the society into the occasional night sweats and fevers: that with economic policy quinine we can manage if not banish the disease, *if we are not too stupid to do it*.
2. Marx the economist was among the very first to get the industrial revolution right: to understand what it meant for human possibilities and the human destiny in a sense that people like Adam Smith did not. In his *Politics* Aristotle observed that it was not possible to run a household in a way that permitted its head enough leisure and freedom to, say, become a lover of wisdom unless the household owned slaves, and that this would be true unless and until we had instruments like “the statues of Daedalus, or the tripods of Hephaestus, which, says the poet, ‘of their own accord entered the assembly of the Gods’; if, in like manner, the shuttle would weave and the plectrum touch the lyre without a hand to guide them, chief workmen would not want servants, nor masters slaves...” Karl Marx was among the very first to see that the industrial revolution was giving us the statues of Daedalus, the

tripods of Hephaestus, looms that weave and lyres that play by themselves--and thus opens the possibility of a society in which we people can be lovers of wisdom without being supported by the labor of a mass of illiterate, brutalized, half-starved, and overworkedslaves. *Something close to utopia is within our grasp.*

3. Marx the economist got a lot about the economic history of the development of modern capitalism in England right—not everything, but he is still very much worth grappling with as an economic historian of 1500-1850. Most important, I think, are his observations that the benefits of industrialization do take a long time—generations—to kick in, while the costs of redistributions and power grabs in the interest of market efficiency and the politically-powerful rising mercantile classes kick in immediately. You have to take seriously the idea that the industrial revolution did not make most or even many people better off right away. Reflect also that, as Tyler Cowen observes, capitalist systems can produce less autonomy than small scale production. Standards of living do rise from industrialization—which can undercut the cultures and networks of suppliers that make the choice of a *petit bourgeois* lifestyle sustainable.

5.2.5. Marx the Economist: The Bad

Now on to the three bads:

1. Marx believed that capital is not a complement to but a substitute for labor. Thus technological progress and capital accumulation that raise average labor productivity also lower the working-class wage. Hence the market system simply could not deliver a good or half-good society but only a combination of obscene luxury and mass poverty. This is an empirical question. Marx's belief seems to me to be simply wrong.

2. Marx the economist did not like the society of the cash nexus. He believed that a system that reduced people to some form of prostitution—working for wages and wages alone—was bad. He saw a society growing in which worked for money, and their real life began only when the five o'clock whistle blows—and saw such an economy as an insult, delivering low utility, and also sociologically and psychologically unsustainable in the long run. Instead, he thought, people should view their jobs as expressions of their species-being: ways to gain honor or professions that they were born or designed to do or as ways to serve their fellow-human. Here, I think, Marx mistook the effects of capitalism for the effects of poverty. The demand for a world in which people do things for each other purely out of beneficence rather than out of interest and incentives leads you down a very dangerous road, for societies that try to abolish the cash nexus in favor of public-spirited benevolence do not wind up in their happy place. We neoliberal economists shrug our shoulders and say that we are in favor of a market economy but not of a market society, and that there is no reason why people cannot find jobs they like or insist on differentials that compensate them for jobs they don't.

3. Marx believed that the capitalist market economy was incapable of delivering an acceptable distribution of income for anything but the briefest of historical intervals. As best as I can see, he was pushed to that position by watching the French Second Republic of 1848-1851, where the ruling class comes to prefer a charismatic mountebank for a dictator—"Napoleon III"—over a democracy because dictatorship promises to safeguard their property in a way that democracy will not. Hence Marx saw political democracy as only surviving for as long as the rulers could pull the wool over the workers' eyes, and then collapsing. I think that Western Europe over the past fifty years serves as a significant counterexample. It

may be difficult to maintain a democratic capitalist market system with an acceptable distribution of income. But “incapable” is surely too strong. Beveridgism or Myrdalism—social democracy, progressive income taxes, a very large and well-established safety net, public education to a high standard, channels for upward mobility, and all the panoply of the twentieth-century social-democratic mixed-economy democratic state can banish all Marx’s fears that capitalist prosperity must be accompanied by great inequality and great misery.

5.3. Where Marx’s Ideas Came From

The good things that Marx was able to think must, I believe, be credited to his own account—to his thoughtfulness, his industry, his intelligence, and his desperate desire to try to get things right. The bad things have, I believe, two of his intellectual origins: Marx's beginnings in German philosophy, and the fact that he hooked up in the 1840s with Friedrich Engels whose family owned textile factories in Manchester.

5.3.1. Hegel

Flirting with Hegel: German philosophy, or perhaps rather Hegel. I remember reading *Capital* for the first time. The first three sections of chapter 1 seemed (a) boring, and (b) tautological. For example:

When, at the beginning of this chapter, we said in common parlance that a commodity is both a use value and an exchange value, we were, accurately speaking, wrong. A commodity is a use value or object of utility and a value. It manifests itself as this twofold thing that it is as soon as its value assumes an independent form—viz., the form of exchange value. It never assumes this form when isolated but only when placed in a value or exchange relation with

another commodity of a different kind. When once we know this such a mode of expression does no harm...

And then I hit section 4: “The Fetishism of Commodities and the Secret Thereof”:

A commodity is... a mysterious thing... in it the social character of men’s labour appears to them as an objective character stamped upon the product... the relation of the producers to the sum total of their own labour is presented... as a social relation... not between themselves but between the products.... In the same way the light from an object is perceived by us not as the subjective excitation of our optic nerve but as the objective form of something outside the eye.... But in the act of seeing there is at all events an actual passage of light from one thing to another, from the external object to the eye. There is a physical relation between physical things. But it is different with commodities. There the existence of the things quâ commodities and the value relation between the products of labour which stamps them as commodities have absolutely no connection with their physical properties... [I]t is a definite social relation between men that assumes in their eyes the fantastic form of a relation between things... we must have recourse to the mist-enveloped regions of the religious world... the productions of the human brain appear as independent beings endowed with life and entering into relations both with one another and the human race. So it is in the world of commodities with the products of men’s hands. This I call the Fetishism which attaches itself to the products of labour so soon as they are produced as commodities.... This Fetishism of commodities has its origin, as the foregoing analysis has already shown, in the peculiar social character of the labour that produces them...

Marx describes this as *coquett[ing] with the modes of expression peculiar to [Hegel]*.

Put me on record as saying that this “coquetting” is profoundly unhelpful.

The Labor Theory of Value: What is going on here? What I think is going on *inside Marx's head* is something strange. To say that “the value

relation[s] between the products of labour... have absolutely no connection with their physical properties” is simply wrong: if the coffee beans are rotten—or if their caffeine level is low—they have no value at all, for nobody will buy them. Marx says that the *value* of a good is something inscribed within it and attached to it—the socially-necessary labor time for its production—that then bosses people around. And it is the *values*—not the prices at which things are actually bought and sold—that are the elements of the real important reality. And those *values*: “appear as independent beings endowed with life and entering into relation both with one another and the human race”.

Now I have never found anybody who thinks this way.

Nobody I talk to believes that “values” are objective quantities inherent in goods by virtue of the time it took to produce them.

Everybody I talk to believes that things are both (a) useful to me and (b) useful to other people, and moreover (c) we live in a society where we exchange stuff—where we, in Adam Smith's words, truck, barter, and exchange. If the combination of my wealth and its usefulness to me makes me *value* it the most, then I use it--it is to me what Marx calls a *use value*. If there is somebody else out there whose combination of their wealth and its usefulness to them makes them *value* it more than I do, then I trade it away to them directly or indirectly for stuff that I value more—they consume it, and it is to me what Marx calls an *exchange value*. But what Marx calls *exchange values* are really use values *to others*: a combination of (a) bargaining power--wealth--and (b) utility to actual concrete breathing humans. Things have value not because of the abstraction that socially-necessary labor time is needed to produce them but because of the concretion that somebody somewhere wants to use it and has something else that others find useful to trade in turn. What Marx calls the mysterious and bizarre dual character of commodities is nothing mysterious or

bizarre: it is simply the fact that I am not the only person in the world, and that things very useful to me may be less useful to others, and vice versa.

5.3.2. Misleading Himself with Mystery

Moreover, capitalist production has nothing to do with what Marx describes as this mysterious dual character of commodities. The distinction between use-value and exchange-value is not something invented by or peculiar to the capitalist mode of production: it is found in all human societies, no matter how large or small, no matter what the glue that holds them together. The cattle slaughtered and cooked by the thralls of Hrothgar, King of the Geats, have use-value to Hrothgar: He and his family can eat (some of) them. The cattle have exchange-value to Hrothgar as well: He feeds them to his warriors at their nightly banquets in his great hall of Heorot. In exchange for livery and maintenance, the warriors fight Hrothgar's wars. Success in war gains Hrothgar more thralls, more cattle, and a bigger and better reputation as a great drighten worth following—until Grendel comes along, and makes eating Hrothgar's cattle in exchange for following him into battle too hazardous to life and limb.

In my view, Marx has trapped himself. He has been primed to expect a deeper layer of real reality underneath mere appearances. And he has chosen the wrong model of the underlying real reality—the labor theory of value, which is simply not a very good model of the averages around which prices fluctuate. Socially-necessary labor power usually serves as an upper bound to *value*—if something sells for more, then a lot of people are going to start making more of them, and the prices at which it trades are going to fall. But lots of things sell for much less than the prices corresponding to their socially-necessary labor power lots of the time. And so Marx vanishes into the swamp which is the attempt to reconcile the labor theory of value with economic reality, and never comes out.

5.3.3. Mistaking What Markets Do

This matters because one conclusion Marx reaches is that markets and their prices are necessarily a source of oppression—that they aren't sources of opportunity (to trade your stuff or the stuff you make to people who *value* it more) but rather of domination by others and unfreedom: the system forces you to sell your labor-power for its *value* which is less than the *value* of the goods you make. And it is that conclusion that human freedom is totally incompatible with wage-labor or market exchange that leads the political movements that Marx founded down very strange and very destructive roads.

5.3.4. Manchester

I've done Hegel. Now let me do Manchester.

Manchester vs. Birmingham: The British interests of the German partnership of Ermen and Engels were not in London or in Birmingham but instead in Manchester. Engels's 1845 *Condition of the Working Class in England*, cribbed for section 1 of the *Manifesto*, was about the condition of the working class in Manchester. Yet as Asa Briggs (1963) stressed most strongly, Manchester was not typical of England.

Briggs quotes Tocqueville's descriptions of Manchester as a city with “a few great capitalists, thousands of poor workmen and little middle class” compared to Birmingham with:

few large industries, many small industrialists... workers work in their own houses or in little workshops in company with the master himself... the working people of Birmingham seem more healthy, better off, more orderly and more moral than those of Manchester...

Briggs speculated that Engels's book would have been very different indeed had Ermen and Engels's interests been elsewhere than Manchester:

his conception of 'class' and his theories of the role of class in history might have been very different.... Marx might have been not a communist but a currency reformer...

Back in 1998, we got George Boyer of Cornell to take a look at the historical circumstances of the composition of the *Manifesto*:

Average age of death of "mechanics, labourers, and their families" in Manchester was 17, as compared to 38 in rural Rutlandshire... despite the fact that laborers' wages were at least twice as high in Manchester... 57 percent of children born in Manchester to working class parents died before their fifth birthday.... Engels arrived in Manchester in the late fall of 1842, Britain was just beginning to recover from the deep depression of 1841-42... "crowds of unemployed working men at every street corner, and many mills were still standing idle" (Engels, 1845 [1987], pp. 121 – 22).... The Economist reported that in the first six months of 1848 [as the *Manifesto* was being written], 18.6 percent of the workforce in Manchester's cotton mills was unemployed, and another 9.5 percent was on short time (Boyer, 1990, p. 235)....

John Stuart Mill (1848 [1909], p. 751)... concluded that "hitherto it is questionable if all the mechanical inventions yet made have lightened the day's toil of any human being. They have enabled a greater population to live the same life of drudgery and imprisonment, and an increased number of manufacturers and others to make fortunes."... Marx and Engels... were not alone in asserting that the standard of living... was quite poor, and perhaps declining... during the "hungry '40s."... Army recruits born around 1850 were shorter than those born around 1820...

Writing at the Nadir for the Working Class: Marx and Engels wrote the *Manifesto*—and made their permanent intellectual commitments—in 1848. It looks as though they wrote at the nadir of living standards as far as British Lancashire textile workers were considered. Their assertion that

wages declined as capitalism progressed looks good up until 1848 if you take Manchester as your guide. Thereafter it proved wrong. By 1865 wages were a little bit higher than they had been in 1848. And after 1870 they took off: by 1880 manual workers were earning 40% more than in 1850.

Moreover, the political ice was cracking as well. Parliament began to regulate conditions of employment in the 1840s. Parliament began to regulate public health in the 1850s. Parliament doubled the urban electorate in 1867, just as volume 1 of *Capital* was published. Parliament gave unions official sanction to bargain collectively in the 1870s. All these were permanent gains—not temporary victories reversed by the power of capital.

5.3.5. What Happens When the World Surprises?

Marx appears to have responded to this world developing in an unexpected way not by rethinking his opposition to markets as social allocation mechanisms or by reworking his analyses of the dynamics of economic growth, capital accumulation, and the real wage level, but by blaming British workers for not acting according to his model in response to predictions by Marx of continued impoverishment and ever-larger business cycles that had not come to pass.

Boyer quotes Marx writing in 1878 about how British workers “had got to the point when [the British working class] was nothing more than the tail of the Great Liberal Party, i.e., of the oppressors, the capitalists”. And Boyer quotes Engels writing in 1894 of how “one is indeed driven to despair by these English workers... bourgeois ideas... viewpoints... narrow-mindedness...”

And so in the late 1870s—after the failure of the British working class to become more militant, the failure of the Paris Commune and the founding

of the French Third Republic, and Bismarck's creation of a unified Prussified German Empire—Marx and Engels started to turn their attention toward Russia. Perhaps a socialist revolution would be possible in a poorer country, where the political system did not have the resources to bribe the working class into acquiescence with the system?

That idea did not, in the end, turn out well.