



History of Economic Thought

Course ECO 423

Chapter 4: Reaction against classical ideas and socialist economic thought

Economic ideas and thought

Utopians

French Socialists

English Socialists

Marx and Marxism

Neo Marxism

Key Features of Socialism



Historical Background of Socialism

- The Industrial Revolution disrupted the traditional agricultural and handicraft-based economy.
- Large factories led to the growth of crowded urban slums plagued by: Vice, crime, disease, hunger, and misery.
- Workers faced dangerous conditions.
- **Industrial accidents had little to no compensation.**
- **Wage earners had no political rights.**
- **Labor unions were illegal.**
- Economic downturns worsened workers' suffering. Industrial progress displaced handicraft workers, increasing job competition and poverty.
- Wealth inequality grew as fortunes increased amid widespread poverty.
- Demands for economic reform emerged in response to worker hardships.
- Capital owners resisted reform, often citing classical economists like Adam Smith to justify minimal government interference.
- The failure of moderate socialists to achieve reforms helped fuel the rise of Marxian socialism.

Whom Did Socialism Benefit or Seek to Benefit?

Moderate socialist groups included: Utopian socialists, Christian socialists, Guild socialists

These groups claimed to represent the interests of all, but especially: Emphasized the needs of workers

Contributions of moderate socialists: Aroused society's conscience. Inspired middle-class reformers. Helped promote reform legislation.

However, by discouraging worker-led unions and parties, they: Unintentionally supported employers and landowners.

Christian socialism emerged in response to: The growing appeal of secular socialist doctrines among workers. A fear that Christianity would lose relevance if not aligned with social reform.

Extreme socialist groups included: Marxists, Anarchists, Syndicalists

These radicals promoted: Class warfare against the wealthy. Sole focus on advancing working-class interests.

How Was Socialism Valid, Useful, or Correct in Its Time?

Workers had **real grievances** against early **laissez-faire capitalism**.

In the early 1800s: **Utopian socialism** reflected the **moral concerns** of society. **Marxian socialism** offered a **theoretical critique** of society, exposing (and sometimes exaggerating) its flaws. Despite exaggerations, socialist critiques had **validity in their historical context**.

Supporters of the **status quo** failed to address: **Poverty and Recurring business depressions**

Socialists contributed by **highlighting these neglected issues**.

Socialism had a **positive historical impact** by helping promote: **Factory acts, Sanitary reform, Cooperative associations, Workers' compensation laws, Labor unions, Pension systems**

Utopians

- Utopian socialism emerged around 1800, with key figures including:
 - **Henri Comte de Saint-Simon, Charles Fourier, Robert Owen**
- Their ideas developed during a time when:
 - Industrial workers were weak, disorganized, and demoralized.
 - Workers lacked voting rights and awareness of their collective power.
- Utopian socialists viewed the competitive market economy as: **Unjust and irrational.**
- They envisioned ideal social systems and Appealed globally for voluntary adoption.
- Promoted **universal cooperation** over **class struggle**.
- Sought support and funding from capitalists to implement their ideas.
- Designed **model cooperative communities**, some of which were attempted but generally failed.

Utopians: Henri Comte de Saint-Simon (1760–1825)

- **Saint-Simon** was an early **utopian socialist**, active before the rise of a political working-class movement in France.
- He **did not call for class struggle** but emphasized **work and productivity**, seeing **idleness as a sin**.
- Proposed a society based on **production**, not property, dividing society into **producers vs. nonproducers**.
- Advocated for a **centrally planned society** run by an “**industrial parliament**” with three chambers: **Invention** (artists, engineers), **Review** (scientists, educators), **Execution** (industrial leaders, budget managers).
- Rejected the classical liberal idea that **individual interest serves the common good**.
- Called for a new **social ethic** to restrain the selfish rich and avoid unrest among the poor.
- **Humanitarian concern for workers** was central to his later ideas.
- His followers opposed **inheritance laws** and supported **collective ownership**.
- His vision and disciples inspired: **Large-scale industry, Banks, railways, highways**, and the **Suez Canal**.
- In his writings, he emphasized:
- The **importance of scientists, artists, and productive workers** to national prosperity.
- The **uselessness and burden** of the aristocracy, clergy, and idle rich.
- Used the metaphor of a **national pyramid**, criticizing the **top layers (ruling class)** as ornamental but nonessential.
- Despite radical views, Saint-Simon **did not support abolishing private property**, though some of his followers did.

Utopians: Charles Fourier (1772–1837)

- Charles Fourier was a utopian socialist and a strong critic of capitalism, commerce, and financial speculation.
- Unlike Saint-Simon, he opposed large-scale production, mechanization, and centralization.
- He condemned capitalism for: Wasting resources through competition.
- Creating moral decay and economic exploitation.
- Promoting financial schemes and stock-jobbing.
- Proposed phalansteries (phalanxes)—cooperative communities of: 1,800 people (300 families) on 9 square miles of land; Palace-like communal living with shared kitchens and housing; Focus on agriculture and handicrafts for increased productivity.
- Aimed to harmonize 12 human passions through social organization.
- Believed children should do "dirty work" because of their natural inclinations.
- Advocated: Trade education for children to avoid overspecialization. Complete gender equality—women should not be confined to housekeeping.
- Income distribution in phalanx (the surplus would be divided as follows): 5/12 to labor, 4/12 to capital, 3/12 to talent/skill
- Promoted "guaranteeism": minimum subsistence, security, and comfort for all.
- Though his plans failed, Fourier: Influenced the labor and cooperative movements.
- Opposed dehumanizing factory labor.

French Socialist: Simonde de Sismondi (1773–1842)

Critique of Classical Economics:

- Originally a supporter of Adam Smith, but later **rejected classical economics**.
- Criticized **Say's Law** and denied that **free markets lead to full employment**.
- Warned against the “**dangerous theory of equilibrium**”—it comes only after great suffering.
- Asserted that **capitalist economies lead to overproduction, unemployment, and crises**.

Early Business-Cycle Theory:

- Identified cycles of **investment booms and busts** driven by:
 - Low wages increasing investment in machines.
 - Credit expansion by banks.
- Predicted **overproduction, periodic crises, and unemployment**.
- Believed **capital concentration** after bankruptcies **narrows the home market**, pushing nations into **imperialism and war**.

French Socialist: Simonde de Sismondi (1773–1842)

Views on State Intervention:

- Called for **state intervention** to ensure: **Living wages** and **Minimum social security**
- Opposed the classical belief that **maximum production equals maximum happiness**.
 - Advocated for **smaller but better-distributed output**.

Policy Proposals:

- Supported: **Inheritance taxes**, **Abolishing patents** to slow down disruptive invention, **Employer-funded security** (old age, illness, unemployment), **Profit-sharing**, **Cooperation between workers and employers**
- Favored **small-scale agriculture and town industries** over urbanization and large industry.
- Urged **public works** (e.g., markets, parks, public buildings) as a response to unemployment:
 - Should not compete with private industry.
 - Should be **temporary**, not create a new permanent underclass of laborers.

French Socialist: Simonde de Sismondi (1773–1842)

Social and Moral Views:

- **First to apply the term “proletary”** to modern wage laborers.
- Emphasized **protecting the poor** as a key role of government: To prevent unrest, promote virtue, and sustain consumption.
- Believed **peasants aim to maximize output**, while **landowners seek only rent**—creating inefficiencies.
- Warned that capitalist land use may **lower national output** in favor of **higher profits for landowners**.

Legacy and Position:

- Not a socialist in the modern sense: Did **not attack private property** or promote **communal living**.
- A **social critic and reform advocate** who **inspired later socialist thought**.
- Sought **moral and social reform** through state action, not revolution.

English Socialist: Robert Owen (1771–1858)

Core Beliefs:

- **Human character is shaped by environment**, not by individual will.
- People are **not responsible** for their actions if raised in poor conditions.
- Improving social and working environments would **produce better, more moral people**.
- Rejected **classical economics** and **Benthamite self-interest**, promoting community welfare as the path to individual happiness.

Factory Reform:

- Transformed **New Lanark Mills** into a model of humane capitalism:
 - Ended child labor under age 10; encouraged education until age 12.
 - Built **schools**, including the **first infant school** in Britain.
 - Offered **free education**, decent housing, and sold necessities at cost.
 - Reduced working hours and provided wages during illness or slowdowns.
 - Paid **above-market wages** (early example of **efficiency wages**).
 - **Abolished fines and punishments**; used incentives instead.

English Socialist: Robert Owen (1771–1858)

Cooperative Vision:

- Believed **capitalism could be replaced** with **cooperative communities** ("villages of cooperation").
- Established **New Harmony** (Indiana, 1825), a utopian community, but it failed within 3 years.
- Advocated **fixed returns** on capital investment (no profit motive).
- Believed investors would **voluntarily give up profits** over time.
- Promoted collective living, shared resources, and economic planning for communal benefit.

Labor and Trade Union Activity:

- Played a major role in early **British unionism**:
 - Supported the **modification of antiunion laws** in 1825.
 - Founded the **Grand National Consolidated Trades Union** (1833), which reached 500,000 members.
 - Opposed strikes and militancy; preferred cooperation over conflict.
 - Disbanded the union in 1834 after backlash against organizers.

English Socialist: Robert Owen (1771–1858)

Cooperative Movement:

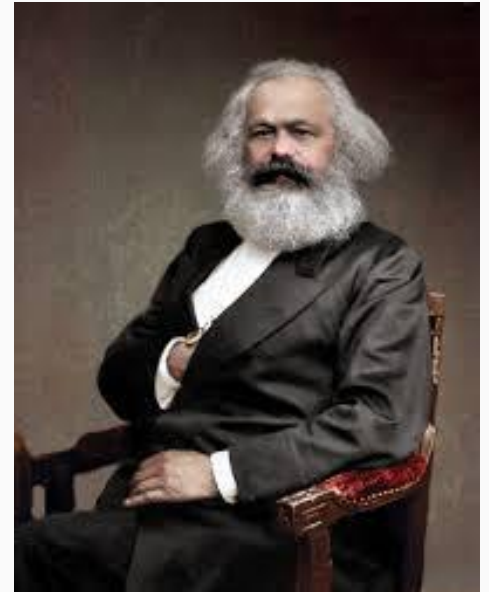
- Founded the **National Equitable Labour Exchange** (1832):
 - Tried to replace money with **labor notes**.
 - Aimed to eliminate **profit and money** by directly linking producers and consumers.
 - The exchange failed, but inspired later cooperative ventures.

Legacy:

- First use of the term “**socialism**” in 1827 was in reference to Owen’s ideas.
- Inspired **socialist thinking**, **cooperative movements**, and **modern trade unions**.
- Maintained lifelong commitment to **social reform**, later adding **spiritualism** to his advocacy tools.

Marx and Marxism

*Karl Heinrich Marx (1818–1883), the leading theoretician of “scientific socialism,” dismissed that approach. He sought to show that capitalism had internal contradictions that would ensure its eventual demise. Marx believed that social revolution was inevitable within advanced capitalist countries. Marx was born in Prussia to a Jewish family that converted to Protestantism during his childhood. He studied law, history, and philosophy at the universities of Bonn, Berlin, and Jena, and he received the degree of doctor of philosophy at the age of twenty-three. University positions were closed to Marx because of his radicalism. He therefore turned to journalism, was exiled from Germany, and went to Paris, where he studied French socialism and English political economy. While there he met Engels, who was on a brief visit. Engels became Marx’s close friend, collaborator, and financial supporter, and together the two wrote the Manifesto of the Communist Party in 1848. In 1867 he published the first volume of his magnum opus, **Das Kapital (Capital)**.*



Marx and Marxism: influence

Marx studied the works of both Smith and Ricardo and was intrigued in particular by **Ricardo's** labor theory of value, sketched his own labor theory—one that had revolutionary implications.

Role of socialists: Marx acknowledged and shared earlier socialists' moral outrage against capitalism and their criticism of classical economics. However, he believed socialism would only emerge through **working-class rebellion**, which he argued was **inevitable due to the worsening conditions** of workers under capitalism.

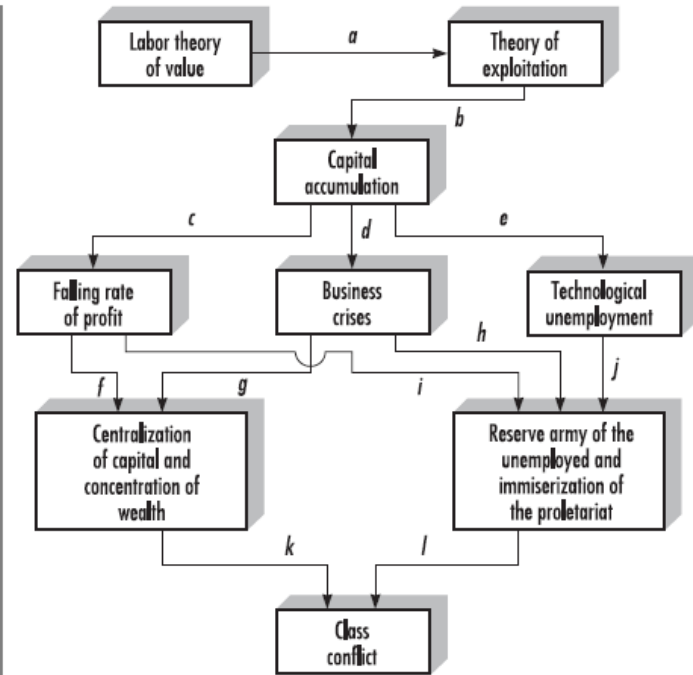
Darwin's theory of **natural selection**, inspired by Malthus, had a strong influence on Marx. Marx saw parallels between **biological evolution** and **class struggle**. He viewed Darwin's work as a **scientific basis** for understanding the **historical and dynamic nature of economic systems**, reinforcing his belief in analyzing capitalism through **change and development over time**.

Marx was greatly influenced by **Hegel's** dialectical process, which views historical progress as a result of conflicts between opposing ideas—a thesis and its antithesis—leading to a synthesis. Marx adapted this idea to develop his theory of historical materialism, shifting the focus from abstract ideas to material and economic forces driving social change.

Marx adopted **Feuerbach's** concept of materialism, which emphasized real, tangible realities over abstract ideas. While influenced by Hegel's dialectical method, Marx rejected Hegel's idealism, instead focusing on material conditions as the driving force of history and viewing religion as an illusion that hinders true happiness.

Marx and Marxism: economic ideas

- Modes of production
- Labor theory of value
- Labor power: source of value
- Surplus value
- Rate of surplus value and rate of profit
- Capital accumulation
- Centralization of capital and concentration of wealth
- Class conflict
- Criticisms of Marx's ideas



Marx and Marxism: economic ideas

The socially necessary labor time includes the direct labor in producing the commodity, the labor embodied in the machinery and raw materials that are used up during the process of production, and the value transferred to the commodity during this process.

If a worker is incompetent or lazy and takes 10 hours to produce a table, its value is still only 6.2 hours.

If a worker or an employer leads the field in technology and efficiency, and a table is produced with 5 hours of labor; its value is nevertheless 6.2 hours.

Component	Labor Time (Hours)
Raw materials	4.0
Machinery (per table)	0.2
Direct labor	2.0
Total SNLT	6.2 hours

Marx and Marxism: economic ideas

Karl Marx's concept of social metabolism refers to the interaction between human societies and nature (nutrients taken from the soil by crops are returned to soil through natural waste recycling), mediated by labor, technology, and productive systems. Marx argued that capitalist production disrupts this natural exchange, creating what he called a "metabolic rift" by commodifying agriculture, separating production and consumption spatially (farms are far from cities) and breaking traditional ecological knowledge (chemical fertilizers are used).

Social Metabolism: Just like a biological organism exchanges nutrients and waste with its environment, **society "metabolizes" nature** through labor and production. This process is **not purely ecological**, but **socially organized**—shaped by economic systems and class relations.

Metabolic Rift

- Capitalism disrupts the natural cycles of nutrient return, creating a **rupture between human society and nature**. Urbanization, industrialization and large-scale capitalist agriculture cause: separate people from direct contact with land, animals, and ecosystems.
 - Depletion of **soil fertility** in the countryside. Food is grown in rural areas, but shipped to cities, so nutrient-rich waste (human and food) is not returned to the soil.
 - Overconcentration of **population and waste** in cities, e.g., urban sewage and waste pollute rivers and oceans than enriching farmland.
 - Alienation of workers from both **nature and their labor**, e.g., land is no longer source of livelihood or shared resource, rather a commodity (bought and sold)

Marx and Marxism: economic ideas

Capitalism's Ecological Contradictions

- Capitalist agriculture relies on **finite, imported resources** (e.g., guano, nitrates), which are **unsustainable fixes**.
- Capitalism treats nature as a “**free gift**” to **capital**, ignoring ecological limits.
- The exploitation of **natural resources in colonies** mirrors the exploitation of labor in cities.

Solution According to Marx

- True ecological sustainability requires **revolutionary change** in **social relations**, not just technological fixes.
- Marx envisioned:
 - **Abolition of private land ownership.**
 - **Communal, rational management of land and resources.**
 - **Restoration of nutrient cycles** (e.g., recycling urban waste back to the soil).
 - **More balanced urban-rural settlement** patterns.

Marx and Marxism: collapse

- Marx predicted capitalism would collapse and be replaced by socialism.
- Ironically, in the late 1980s–1990s, **Marxian socialism collapsed**, especially in Eastern Europe and the Soviet Union, while **nascent capitalism emerged**.

Centrally Planned Economies Failed

- Marx said little about how socialism should organize production.
- Marx's followers adopted **central planning** as a "necessary" successor to capitalism.
- **Empirical evidence contradicted this premise:**
 - Capitalist West Germany thrived; **East Germany stagnated**.
 - South Korea (capitalist) boomed; **North Korea (communist) lagged**.
 - **China's food production rose** after market reforms; the **USSR remained food-insecure** under collectivized farming.

World Systems Theory: Immanuel Wallerstein

Definition and Nature of a World-System

- A **world-system** is a **social system** with boundaries, structures, groups, rules, and coherence.
- It contains **conflicting forces** that both hold it together and pull it apart.
- It is **organic**, with a **lifespan**—some features change over time, others remain stable.
- It is largely **self-contained**; its **dynamics are mostly internal**.
- A **world-system** is a **world-economy**: integrated **through markets**, not a single political center.
- Characterized by:
 - a. **Two or more interdependent regions**
 - b. **Two or more competing states**, with no permanent hegemon
- The system has a **multicultural territorial division of labor**.
- Two interdependent regions: **Core**: capital-intensive, high-tech production and **Periphery**: labor-intensive, raw material extraction. This division is **structural**, not simply geographical.

World Systems Theory: Immanuel Wallerstein

- **Core:** Wealthy, powerful, technologically advanced, Exploit the periphery
- **Periphery:** Poor, weak, structurally subordinated, Provide raw materials and cheap labor, Development path reproduces dependency
- **Semi-periphery:** Intermediate zone with a mix of core and peripheral features, Acts as a **buffer**, **stabilizing** the system

Unequal Exchange

- The **core extracts surplus** (value) from the **periphery** via **unequal exchange**.
- Peripheral surplus is **appropriated and transformed** by the core.
- Leads to **global capital accumulation**.

Political Structures and Power

- **Nation-states** are **elements within the system**, used by dominant class forces.
- **Core states** reinforce global inequalities via **strong institutions** and military power.
- **Imperialism:** domination of peripheral regions by core powers.
- **Hegemony:** a **temporary** condition where one core state dominates (e.g., Britain, then the U.S.).
 - Hegemons enforce **free trade** and global order — but only as long as it suits them.

World Systems Theory: Immanuel Wallerstein

Technology plays a central role in defining a region's position. **Core nations** retain advantage by staying ahead technologically.

The world-system is shaped by **class conflict**, both within and across nations. **Cyclical patterns** characterize the system (e.g., economic booms and crises). **Hegemony rises and declines** with these cycles.

Feature	World-Systems Theory (Wallerstein)	Dependency Theory
Core Idea	Global capitalism is a single world-system with structured inequalities	Underdevelopment is caused by exploitation from developed countries
Unit of Analysis	The world-system (not individual states)	Nation-states (focus on relationships between countries)
Structure	Core, Periphery, and Semi-Periphery	Core and Periphery (less emphasis on semi-periphery)
Focus	Global division of labor , historical evolution of capitalism	Historical exploitation and dependency of poor countries
Mechanism of Exploitation	Unequal exchange and transfer of surplus to the core	Dependence on exports, foreign capital, and aid
Role of States	States are tools of class forces within the world-system	Emphasis on external domination of poor nations
Possibility of Change	System-wide transformation (e.g., collapse of capitalism)	Focus on national-level policy reforms (e.g., delinking)

Dependency Theory

Core Idea: Dependency theory argues that underdevelopment in the Global South (Asia, Africa, Latin America) is primarily a result of the structure and dynamics of the international economic system, rather than internal factors.

Global System Focus: It asserts that political and economic development must be analyzed in the context of global capitalism and imperialism.

Imperialism: Viewed as both a historical and ongoing process that defines development trajectories in the periphery through exploitation by the core (advanced capitalist nations).

Historical Determinism: Dependency theorists often see development and underdevelopment as two sides of the same historical capitalist process, with the prosperity of the North being made possible by the poverty of the South.

External vs. Internal Factors:

- Emphasizes external economic dependence (technology, finance, markets, imports).
- Downplays internal political, social, and institutional dynamics.

Dependency Theory

Economic Dualism:

- Even in cases of industrialization, development remains "dependent" because it's controlled by multinational corporations (MNCs) from the North.
- Local industrial growth is often seen as "associated-dependent development" (Cardoso).

Symbiotic Elites:

- Argues that local elites in the South align with foreign interests, creating a political structure that perpetuates dependency.

Ideological Alignment:

- Strongly associated with Marxism and Third World nationalism.
- Dependency theory is not just analytical but ideological—meant to inspire political change.

Dependency Theory

Relevance of Dependency Theory in "The Tomato Trail"

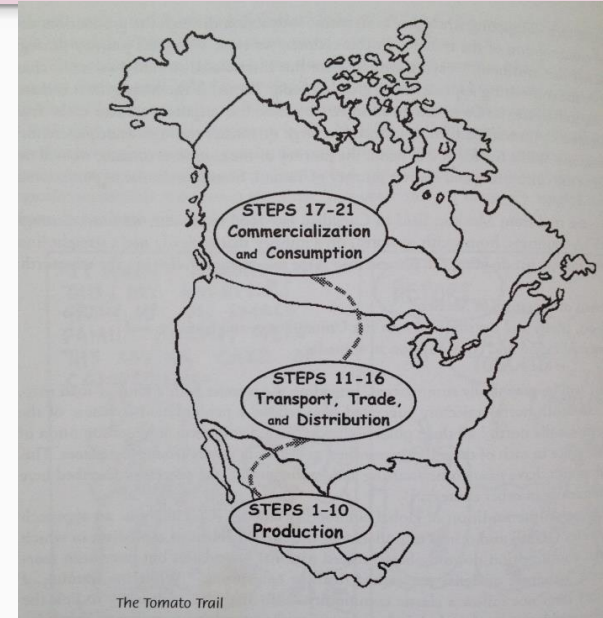
Unequal Global Division of Labor

Steps 1–10: Production (Global South, e.g., Mexico)

- Tomatoes are grown and harvested by low-paid laborers, often in poor working conditions.
- Reflects how resource-rich but economically dependent regions are locked into providing cheap raw goods and labor.

Steps 17–21: Commercialization and Consumption (Global North, e.g., U.S. and Canada)

- Value is added during processing, packaging, branding, and marketing.
- Profits accrue mainly to **multinational corporations and Northern consumers**, not the producers.



Barndt, D. (2008). *Tangled routes: Women, work, and globalization on the tomato trail*. Bloomsbury Publishing PLC.

Neo Marxism: Henry Bernstein

Henry Bernstein (born 9 February 1945) is a British sociologist and emeritus Professor of Development Studies at the University of London's [School of Oriental and African Studies](#). Bernstein was from a working class, Jewish, communist family in [Stoke Newington](#) that subsequently lived on a [London County Council](#) housing estate near [Reigate](#). He studied history at the [University of Cambridge](#), and sociology at the [London School of Economics](#). Bernstein's research includes the political economy of agrarian change; social theory and globalisation and labour. He is known for applying [class analysis](#) and [Marxist](#) approaches to [agrarian societies](#), including his theories of 'reproduction squeeze'



Henry Bernstein: economic ideas

Focuses on the **social relations and dynamics** of: **Production and reproduction, Property and power**, In both **historical and contemporary agrarian formations**.

Development of capitalism changes the **social character of small-scale farming**.

Leads to **commodification of subsistence**:

- **Peasants** become **petty commodity producers**.
- Must produce their **subsistence** through **market integration** and wider **divisions of labor**.
- Petty commodity producers become **differentiated into classes** based on access to land, labor, and capital.

Reproduction in Agrarian Systems: Refers to sustaining the conditions of ongoing farming and life:

- **Means of production:** land, tools, seeds, livestock.
- **Current and future producers:** people who farm now and in the future.
- **Social relations:** among producers and with wider society.

Henry Bernstein: economic ideas

Types of Reproduction "Funds"

1. **Consumption fund:** Immediate needs like food, shelter, rest — **daily survival**.
2. **Replacement fund: Renewing tools and inputs** (seeds, fertilizers, etc.) used in each cycle.
3. **Ceremonial fund:** Products allocated to **social and cultural functions** (rituals, festivals, marriage, home-building). Requires a **surplus** beyond basic consumption.

Labor is exploited to: Expand the **scale of production**, Increase **productivity**, Achieve **capital accumulation and profit**

Bernstein's Four Questions of Agrarian Political Economy

1. **Who owns what?** Distribution of the **means of production and reproduction**.
2. **Who does what?** Division of **labor** based on social relations (gender, class, etc.).
3. **Who gets what?** Distribution of the **fruits of labor** (income, output, surplus).
4. **What do they do with it?** Patterns of **consumption, reproduction, and accumulation** shaped by social structure.

