Excerpts from the Communist Manifesto

(Karl Marx and Friedrich Engels)

Marx and Engels used a couple of terms here that need to be clarified. First of all, bourgeoisie referred to the new business and industrial class that had emerged in the last few centuries before his time (as opposed to the traditional landed aristocracy); proletariat referred to the workers in these factories (owned by the bourgeoisie), who, in Marx’ view, were “wage

slaves,” bound to work for wages lest they starve

Part II: Proletarians and Communists

What else does the history of ideas prove, than that intellectual production changes its character in proportion as material production is changed? The ruling ideas of each age have ever been the ideas of its ruling class.

When people speak of ideas that revolutionize society, they do but express the fact that within the old society the elements of a new one have been created, and that the dissolution of the old ideas keeps even pace with the dissolution of the old conditions of existence.

When the ancient world was in its last throes, the ancient religions were overcome by Christianity. When Christian ideas succumbed in the eighteenth century to rationalist ideas, feudal society fought its death-battle with the then revolutionary bourgeoisie.

The ideas of religious liberty and freedom of conscience, merely gave expression to the sway of free competition within the domain of knowledge..

We have seen above that the first step in the revolution by the working class is to raise the proletariat to the position of ruling class to win the battle of democracy. The proletariat will use its political supremacy to wrest, by degree, all capital from the bourgeoisie, to centralize all instruments of production in the hands of the state, i. e., of the proletariat organized as the ruling class; and to increase the total productive forces as rapidly as possible.

These measures will, of course, be different in different countries. Nevertheless, in most advanced countries, the following will be pretty generally applicable.

1. Abolition of property in land and application of all rents of land to public purposes.

2. A heavy progressive or graduated income tax.

3. Abolition of all rights of inheritance.

4. Confiscation of the property of all emigrants and rebels.

5. Centralization of credit in the banks of the state, by means of a national bank with state capital and an exclusive monopoly.

6. Centralization of the means of communication and transport in the hands of the state.

7. Extension of factories and instruments of production owned by the state; the

bringing into cultivation of waste lands, and the improvement of the soil generally in accordance with a common plan.

8. Equal obligation of all to work. Establishment of industrial armies, especially for agriculture.

9. Combination of agriculture with manufacturing industries; gradual abolition of all the distinction between town and country by a more equable distribution of the populace over the country.

10. Free education for all children in public schools. Abolition of children’s factory labor in its present form. Combination of education with industrial production, etc.

**Excerpts from The Wealth of Nations by Adam Smith (1776)**

**Book 1- Chapter 7  
Of the natural and market Price of Commodities**

**[5] The actual price at which any commodity is commonly sold is called its market price. It may either be above, or below, or exactly the same with its natural price.**

**[6] The market price of every particular commodity is regulated by the proportion between the quantity which is actually brought to market, and the demand of those who are willing to pay the natural price of the commodity, or the whole value of the rent, labour, and profit, which must be paid in order to bring it thither. Such people may be called the effectual demanders, and their demand the effectual demand; since it may be sufficient to effectuate the bringing of the commodity to market. It is different from the absolute demand. A very poor man may be said in some sense to have a demand for a coach and six; he might like to have it; but his demand is not an effectual demand, as the commodity can never be brought to market in order to satisfy it.**

**[7] When the quantity of any commodity which is brought to market falls short of the effectual demand, all those who are willing to pay the whole value of the rent, wages, and profit, which must be paid in order to bring it thither, cannot be supplied with the quantity which they want. Rather than want it altogether, some of them will be willing to give more. A competition will immediately begin among them, and the market price will rise more or less above the natural price, according as either the greatness of the deficiency, or the wealth and wanton luxury of the competitors, happen to animate more or less the eagerness of the competition. Among competitors of equal wealth and luxury the same deficiency will generally occasion a more or less eager competition, according as the acquisition of the commodity happens to be of more or less importance to them. Hence the exorbitant price of the necessaries of life during the blockade of a town or in a famine.**

**[8] When the quantity brought to market exceeds the effectual demand, it cannot be all sold to those who are willing to pay the whole value of the rent, wages, and profit, which must be paid in order to bring it thither. Some part must be sold to those who are willing to pay less, and the low price which they give for it must reduce the price of the whole. The market price will sink more or less below the natural price, according as the greatness of the excess increases more or less the competition of the sellers, or according as it happens to be more or less important to them to get immediately rid of the commodity. The same excess in the importation of perishable, will occasion a much greater competition than in that of durable commodities; in the importation of oranges, for example, than in that of old iron.**

**Book 4   
Of Systems of Political Economy**

**Chapter 2  
Of Restraints upon the Importation from Foreign Counties  
of Such Goods as can be produced at Home**

**[9] But the annual revenue of every society is always precisely equal to the exchangeable value of the whole annual produce of its industry, or rather is precisely the same thing with that exchangeable value. As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.**

**[10] What is the species of domestic industry which his capital can employ, and of which the produce is likely to be of the greatest value, every individual, it is evident, can, in his local situation, judge much better than any statesman or lawgiver can do for him. The statesman who should attempt to direct private people in what manner they ought to employ their capitals would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.**

**[11] To give the monopoly of the home market to the produce of domestic industry, in any particular art or manufacture, is in some measure to direct private people in what manner they ought to employ their capitals, and must, in almost all cases, be either a useless or a hurtful regulation. If the produce of domestic can be brought there as cheap as that of foreign industry, the regulation is evidently useless. If it cannot, it must generally be hurtful. It is the maxim of every prudent master of a family never to attempt to make at home what it will cost him more to make than to buy. The tailor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a tailor. The farmer attempts to make neither the one nor the other, but employs those different artificers. All of them find it for their interest to employ their whole industry in a way in which they have some advantage over their neighbours, and to purchase with a part of its produce, or what is the same thing, with the price of a part of it, whatever else they have occasion for**

**‘Keynes: The Return of the Master’**

Top of Form

Bottom of Form

By ROBERT SKIDELSKY

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We have been living through one of the most violent collapses in economic life seen in the last hundred years. Yet economics — the scientific study of economic life — has done an exceptionally poor job in explaining it. For, according to mainstream economic theories, a downturn on this scale should not have happened. And we also have precious little idea about how to stop a succession of such crises bearing down on us in future. To get a handle on these issues we need John Maynard Keynes.

In a way, this is to be expected. For twenty years or so, mainstream economics has taught that markets "clear" continuously. The big idea was that if wages and prices are completely flexible, resources will be fully employed. Any shock to the system will result in instantaneous adjustment of wages and prices to the new situation.

Admittedly, this system-wide responsiveness depended on economic agents having perfect information about the future. This is manifestly absurd. Nevertheless, most mainstream economists believed that economic actors possess enough information to lend their theorizing a sufficient dose of reality. This so-called "efficient market theory," should have been blown sky-high by last autumn's financial breakdown. But I doubt that it has been. Seventy years ago, John Maynard Keynes pointed out its fallacy. When shocks to the system occur, agents do not know what will happen next. In the face of this uncertainty, they do not readjust their spending; instead, they refrain from spending until the mists clear, sending the economy into a tailspin.

It is the shock, not the adjustments to it, that spreads throughout the system. The inescapable information deficit obstructs all those smoothly working adjustment mechanisms — i.e., flexible wages and flexible interest rates — posited by mainstream economic theory. An economy hit by a shock does not maintain its buoyancy; rather, it becomes a leaky balloon. Hence Keynes gave governments two tasks: to pump up the economy with air when it starts to deflate, and to minimize the chances of serious shocks happening in the first place.

Today, the first lesson appears to have sunk in: various bailout and stimulus packages have stimulated depressed economies sufficiently to give us a reasonable expectation that the worst of the slump is over. But, judging from recent proposals in the United States, the United Kingdom, and the European Union to reform the financial system, it is far from clear that the second lesson has been learned. A few cosmetic reforms, it now seems to be agreed, are all that is needed. This is to set the scene for the next crisis.

For thirty years or so after the Second World War, Keynesian economics ruled the roost, at least in the sense that Keynesian policy — trying to keep economies fully employed and growing on an even keel — was part of the normal toolkit of governments. Then it was thrown out, as economics reverted to its older doctrine that market economies were internally self-correcting and that it was government intervention which made them behave badly. The free-market era of Reagan and Thatcher dawned.

The story of the decline and fall of the Keynesian revolution, and what has happened to economics generally, is a fascinating intellectual detective story in its own right, which charts the trajectory from President Nixon's 'We are all Keynesians now' in 1971 to Robert Lucas's 2009 remark 'I guess everyone is a Keynesian in the foxhole.'

The decline of Keynesianism is a key theme of this book, because I believe with Keynes that ideas matter profoundly, 'indeed the world is ruled by little else'.2 I therefore believe that the root cause of the present crisis lies in the intellectual failure of economics. It was the wrong ideas of economists which legitimized the deregulation of finance, and it was the deregulation of finance which led to the credit explosion which collapsed into the credit crunch. It is hard to convey the harm done by the recently dominant school of New Classical economics. Rarely in history can such powerful minds have devoted themselves to such strange ideas. The maddest of these is the proposition that market participants have correct beliefs on average about what will happen to prices over an infinite future. I am naturally much less critical of the New Keynesian school, which disputes the terrain of macroeconomics with the New Classicals, but I am still quite critical, because I believe that in accepting the theory of rational expectations, which revives in mathematical form the classical theory which Keynes rejected, they have sold the pass to the New Classicals. Having swallowed the elephant of rational expectations, they strained at the gnat of the continuous full employment implied by it, and developed theories of market failure to allow a role for government.

The centrepiece of Keynes's theory is the existence of inescapable uncertainty about the future. Taking uncertainty seriously — which few economists today do — has profound implications not just for how one does economics and how one applies it, but for one's understanding of practically all aspects of human activity. It helps explain the rules and conventions by which people live. I lay particular emphasis on its implications for how the social sciences should use language.Keynes always tried to present his essential thoughts — which he called 'simple and . . . obvious' — in what may loosely be called high-class ordinary language. This was not just to amplify his persuasive appeal, but because he thought that economics should be intuitive, not counter-intuitive: it should present the world in a language which most people understand. This is one reason why he opposed the excessive mathematicization of economics, which separated it from ordinary understanding. He would have been very hostile to the linguistic imperialism of economics, which appropriates important words in the common lexicon, like 'rational', and gives them technical meanings which over time change their ordinary meanings and the understandings which they express. The economists' definition of rational behaviour as behaviour consistent with their own models, with all other behaviour dubbed irrational, amounts to a huge project to reshape humanity into people who believe the things economists believe about them. It was consistent with Keynes's attitude to language to prefer simple to complex financial systems. He would have been utterly opposed to financial innovation beyond the bounds of ordinary understanding, and therefore control. Complexity for its own sake had no appeal for him.