

MARXIST POLITICAL ECONOMY AND THE CRISIS OF RELEVANCE IN CONTEMPORARY WORLD

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ABSTRACT

This paper set out to support the Marx's thesis that an economic system founded on exploitation and inequities is prone to crises. It agrees however that some assumptions of Marx have been faulted with passage of time, but maintains that Marxism remains relevant as long as its central message cannot be faulted. The methodology adopted was both historical and comparative. The historical approach was used to situate Marxism within the stream of dominant economic thought, and show how well it explains the various historical epochs from primitive era to the more recent post modern societies. The comparative approach was used to review the socialist governments in China and the defunct USSR. The outcome of both approaches point to the fact that Marxism needs to restructure itself to remain continually relevant. More importantly, neo-Marxists need to admit the possibility of change emanating simultaneously from both the political superstructure and the economic base, which among other things, make incorporation of Hegel's phenomenology into mainstream Marxism expedient.

Keywords: Marxism, Exploitation, Mao, Social consciousness, Collectivization, Inequality, Revolution.

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INTRODUCTION

1. MARXISM IN THE CONTEXT OF POLITICAL ECONOMY

Modern political economy originated from moral philosophy in the 18th century as the study of the economies of states and polities, particularly as relating to morality, ethics, and equity. But today, where it is not used as a synonym for economics, political economy broadly refers to an interdisciplinary approach that applies economic methods to the analyses of how political outcomes and institutions affect economic policies and human wellbeing. Historically however, the study of political economy or "economics" is about 400 years old, as its first discovery dates back to the Spanish bankruptcy of the sixteenth century. Like the physical sciences, economics deals with the relationship between cause and effect; that is, between man's actions and their material consequences for human existence. But economics like all social sciences also deals with an equally determining subjective process; that is, how man's interpretation of nature results in consequent human actions. Accordingly, there is a divide between the positive and normative

schools: positive political economists are often associated with rational choice assumptions and models, especially as relating to games and social choice theories; while normative political economists adopt neo-Marxian approaches to development issues as postulated by writers like Andre Gunder Frank and Immanuel Wallerstein. What marks Marxist political economy out (from other brands of economics) is rejection of von Neumann and Morgenstern's postulate that the price and utility of commodities are in formal correspondence. Marx argues that both are different in much the same way as value-in-use differs from value-in-exchange (Marcus, 1975; Wikipedia, 2012).

An important contribution of Marx in the dominant social discourses is focus on the importance of ideology to analysis of human history and contemporary development studies. In the Marxian perspective, ideology is a system of thought; the mental structure, and patterns of rationalization that shapes conduct and how people approach issues. An economic ideology, particularly, defines how a society confront the fundamental economic problems of how to produce, what to produce, for whom to produce, and how to achieve economic development, reduce unemployment and poverty. In this context, Marxism distinguishes itself from economic theory in being both logical and normative rather than merely attempting to explain reality. Two broad ideological directions – capitalism and communism – are distinguishable. Capitalism promotes *lassie faire* or individualism and private enterprise, while communism promotes collectivism and centralized planning. In between these two extremes are combinations of both.

Capitalism as an ideology strives on competition and private ownership, while socialism advocates either public or direct workers' ownership or administration of the means of production and allocation of resources. Communism is the evolution of socialism to the extent that private capital and ownership withers away and is no longer necessary for the functioning of the planned economy. Marx integrated "the best" of three nineteenth century sources (German philosophy, French socialism, and English political economy) to coagulate the dominant heterodox thought of the twentieth century. Marxism and mainstream neo-Marxism fall within the normative schools that are more recently referred to as the 'new political economy', which seeks to disclose the underlying ideological currents that generate and sustain changes. Unlike economic theory, the "new political economy" is normative; expressing perspectives on how an economy should be run and to what end, whereas economic theories attempt to create mathematically plausible models (Marcus, 1975; Wolff, 1998; Wikipedia, 2012).

Ordinarily, economic theorists and neo-Marxian writers should complement each other as there ought to be some meeting point between theory and practise. But in reality, scholars on both sides struggle for relevance; while neo-Marxists argue that economic theorists are largely alienated from practical realities, many theorists believe that Marxism was antiquated after the collapse of USSR and other Eastern European communist governments in the late 1980s. In this paper, while it is admitted that neo-Marxists need to shift Marxism towards emerging realities, it is argued strongly that the Marxian dynamics of how societies evolve are still relevant and adaptable to different societies, regardless of what has happened in the defunct socialist countries.

2. MATERIALIST INTERPRETATION OF HISTORY

Dialectical materialism is the building block of Marxist theorizing. It is essentially a synthesis of Hegel's dialectics and Feuerbach's materialism blended with historicity. For Karl Marx, dialectics depict the laws of the development of nature, society, and thought. The universe is conceptualized as an integral whole in which things are interdependent. The natural world or cosmos is in a state of constant motion, and development is a process whereby quantitative and qualitative changes take place. Furthermore, Marx believed that all things contain within themselves contradictions that are the primary cause of motion, change, and development in the world. For Saad-Filho (2002), the writing of Karl Marx provides a uniquely insightful explanation of the inner workings of capitalism, which other schools of thought generally have difficulty explaining. For example, the necessity and origin of money, the growth of the wage-earning class, uneven development, cycles and crises, and impoverishment of the workers leading to debt and overwork were all explained by Marx. More specifically, Marx demonstrated the following facts about capitalism that is true for all ages:

- Capitalist production necessarily involves conflicts in production and in distribution.
- Competition is an essential feature of capitalism, but it often generates instability, crises and unemployment, showing that capitalism is not only the most productive system but also the most systematically *destructive* mode of production in history.
- Capitalist economies are unstable because of the conflicting forces of extraction, realization, and accumulation of surplus value under competitive conditions. This instability is structural, and even the best economic policies cannot avoid it completely.

Marx explains social organization as arising basically from the material necessity of self reproduction, arguing that material necessity determines social being, and social being determines social consciousness. This contrasts with Hegel's idealistic view that it is consciousness that determines social being. But Marx retains Hegelian dialectics within its materialist framework, and emphasizes the process of historical change arising from class struggle and contradictions between the materialist base or sub-structure and social consciousness or superstructure.

Two key factors are important for societal evolution in the context of dialectical materialism, namely; population growth that raises the number of persons to cater for, and man's desire for variety arising from the need to maintain stability and security in a world that is perceived as unstable and inherently risky. In contrast to Marx's dialectical materialism, Hegel's dialectical idealism considers truth as the product of history, and history a product of the "Spirit of the Time". For Hegel, thought precedes matter, while in Marx matter precedes thought, and all phenomena in the universe are perceived as consisting of "matter in motion". Moreover, in Marx all things are interdependent and interconnected and develop according to natural law, the world exists outside us and independently of our perception of it, thought is a reflection of the material world in the brain, and the world is in principle knowable. Hegelians would prefer to argue that change principally originates from indoctrination (either forcefully or through mental colonization) and may or may not require or lead to immediate changes in the material base.

An important application of the Marxian economic thought is interpretation of the historical evolutionary and development processes of man from the primitive to the modern society. Neo-Marxists identify five closely linked historical epochs, as follows:

- Transition from primitive economy to the feudal economy
- From the feudal economy to primitive capitalist accumulation
- From primitive capitalist accumulation to industrial capitalism
- From industrial capitalism to the communist revolution
- From communist revolution to the overthrow of capitalism

The historical epochs and change dialectics are summarized below in Table 1

Table-1. Historical Epochs; Major Characteristics and Change Dialectics.

Major Characteristics	Change Dialectics
Transition from Primitive Economy to the Feudal economy	
Social relations were of slaves with the masters. Slow population growth and growing difficulties with getting slaves promote the material conditions that generated social relations.	Excessive exploitation of the slaves (material condition), eventually caused them to unite around their common problems to fight the slave masters, leading to transition from slavery to serfdom.
From the Feudal economy to Primitive Capitalist Accumulation	
The social relations in the feudal society were those of the landlord and serfs (peasants). Human thought increasingly motivated by the material conditions of agricultural production, introduction of money, and improvement in transportation technology.	Serfdom prompted the emergence of surplus and faster population growth (material conditions), which brought to fore the need to create and maintain social order necessitating the emergence of the governing class (social consciousness) who live on the surplus created by others. The material condition of production required increasingly freer workers and more merchandise capitalism.
From Primitive Capitalist Accumulation to Industrial Capitalism	
Primitive capitalist accumulation was convenient as it allowed those who were able to overcome the feudal wars to accumulate capital. Serfdom systematically gave way to freelance peasantry and wage labour.	The material condition of feudalism eventually contradicted the emerging technological developments that encouraged mass production within a de-personalised organizational setting of the emerging industrial capitalism.
Communist Revolution - The overthrow of capitalism	
Capitalist exploitation of labour leading to more profits for capitalists, growing army of the unemployed, and discontent of labour.	Fewer disunited capitalists pitched against a working class with common (material) conditions of excessive exploitation and poverty that promote mass protest leading to the overthrow of capitalism.

Karl Marx's original work did not explain how the overthrow of capitalism would be take place, and what pattern class struggle would take under communism. These philosophical inadequacies have caused many critics to describe Marxism as incomplete and of limited practical relevance. Equally, the collapse of several pro-communist states in the 1980s and market reforms in China have made many to doubt the relevance of Marxism.

2.1. Extension of the Marxian Dialectics by Fredrick Engel

Engel extended the thoughts of Karl Marx to the global scene, where capital is internationalized and power shifts from local capitalists to large multinational firms, who in search for larger markets and cheaper sources of raw materials establish strong presence in several countries; systematically exerting economic and political control, and continually widening their global dominance. Engel explained how capitalism transitioned to the exploitation of the working class and the natural resources in less developed (periphery) countries by MNCs whose headquarters are located in the advanced (metropolitan) countries. This transnational exploitation of resource rich less developed countries by the developed countries, using the agency of MNCs, is what Engel refers to as imperialism.

But neither Marx nor Engel was able to foresee how it will become increasingly difficult to distinguish countries on the basis of concrete ideological types. More advanced capitalist countries have increasingly become democratic and inevitably responsive to enlightened, sophisticated, and demanding electorates who care less about which ideology countries follow, but are in a hurry to experience positive changes in their well being. Equally, it was difficult to foresee how explosions in information technology and knowledge would continually impact on the material base, social relations and social consciousness simultaneously; making it difficult to distinguish between Marxian and Hegelian dialectics. For instance, terrorism or resort to forceful struggles is more rationally associated with poverty, deprivation, and social or political inequities. Yet many rich persons and families have in recent times been indoctrinated to join militant groups, fund terror, and volunteer as suicide bombers! One way causation, either from the material base, social relations or social consciousness to social change is much less logical now than was the case in the past. This has made it practically unreasonable to speak either of dialectical materialism or dialectical idealism independently. But it is important to note that Marx's approach to political economy was from the outset that of a critical and revolutionary student of society rather than that of an economist. Hence he paid little attention to examining differences that may occur in countries arising from how policies affect economic activities and peoples' responses to government policies and programmes that would most naturally differ from place to place. It would be wrong therefore to judge Marx outside his analytical scope.

Essia (2012) believes however that exportability of cultures, along the lines of Hegel's phenomenology, explains societal evolution much more than Marx's historical materialism. Mental colonization is the hallmark of modernization, or civilization; it is much more a struggle in the realm of ideas than that between the material base and the political superstructure. Poverty or material weakness is first and foremost a mental deficiency arising from inadequate, inappropriate or obsolete ideas before manifesting as material lack. A superior idea will generally render inferior ideas irrelevant. Individuals in Hegel's phenomenology evolve from an understanding of things, to an understanding of their self, and then their place in the larger scheme of things. Therefore, Hegel offers a general theory of the evolution of the world, in which changes originate in the realm of consciousness. Changes are often beyond the control of the

actors. Actors are reduced to a little more than vessels swept along by the inevitable evolution of consciousness. For Hegel, unlike Karl Marx, changes originate from the non-material realm.

Arthur (2000) opines that several emerging developments in capitalist economies that are not well located within Marx's materialist dialectics are explainable within Hegelian philosophy, arguing further that Marx's insufficient grasp of Hegel's philosophy accounts for much of the criticisms of Marxism in recent times. In his view, Marx never explained his own method adequately because he was uncertain himself, especially about its relationship with Hegel's method, and indeed that Marx was confused about the relevance of Hegel's logic. He argues strongly that modern day Marxists need to study and understand Hegel's logic and Marxism alongside because the material and non-material facts are equally important and dialectically complementary; hence the 'new dialectics' that seeks to enrich Marxian thoughts with Hegelian philosophy.

3. MARXISM AND THE CHALLENGE OF RELEVANCE

For Fine (2009) and Lee (2008), growing crises in capitalist economies was creating a vacuum that Marxism can fill in both understanding and providing implementable means of resolution. This has, in his view, made Marxism more popular now than it was 30-40 years ago. They however identify four reasons why Marxist political economy appears to be doing badly in the recent intellectual scene, to include:

- The effect of stagflation of the 1970s which popularized the use of highly sophisticated analytical models that generally alienated economics from subjective reasoning.
- Belief in existence of equilibrium, the analysis of equilibrium, and efficacy of the market process.
- Popularization of the use of econometrics, reconstruction of economics as a purely scientific discipline, and rejection of alternative methods.
- Universalizing of the microeconomic principle as having potency for explaining not only economics but the entire society. This has given rise to application of microeconomics to nearly all aspects of human endeavour and the extreme professionalization and Americanization of the economic discipline.

Essia (2012) argues further that colonization of human thinking by modern economics thought is largely responsible for the contradictions, distortions, and environmental degradation of today's world. Modern economics serves as the 'Bible' that justifies mercantilist norms like profit seeking, capital accumulation, individualism, and excessively competitive behaviours. By equating material wealth to success, the pursuit of wealth was legitimized regardless of what one has already and how such pursuit would impact on human life. Material pursuit has extended from the levels of individuals and firms to countries and regions. Using macroeconomics arguments, countries are urged to struggle to improve their trade balance and accumulate more capital, often at the expense of other countries, particularly the poorer ones. This blind drive to

obtain more monetary gains or maintain existing wealth levels have eroded peace, joy, friendship, and healthy life, which paradoxically are some of the ultimate ends of life pursuit.

In defence of Marxism, [Korsch \(1938\)](#) identifies the analysis of surplus value as a sterling contribution of Marxian political economy, arguing as follows:

- That in contrast to earlier economic thoughts that had dealt with the detached fragments of surplus value in their fixed forms of rent, profit, interest, as given entities, Marx first treated the general form of surplus value, in which all those elements are still comprehended in an undivided unity like the un-crystallized components in a chemical solution.
- That, without exception, economists had missed the simple fact that if a commodity has “value in use” and “value in exchange,” the labour entailed in the production of the commodity must possess the same two-fold character.
- And, that for the first time wages are shown to be an irrational manifestation of some other relation hidden behind them.

By these [Korsch \(1938\)](#) argues that Marxian theory transformed economics into a direct historical and social science dealing with the development of material production and class struggle. The Marxian method thus provides a more refined, comprehensive, thorough, and consistent analysis that advance traditional economic concepts and theorems to a point where the practical reality behind them, i.e., their historical and social contents become tangible and subject to critical attack. But to remain relevant however, Marxism has to address itself to the theoretical and political challenges of the moment. The 19th century focused on the ideological basis for socialism, such as; the Communist Manifesto of 1848, critique of bourgeois political economy, and the establishment of a political economy of labour. In the 20th century, neo-Marxists were confronted with emergence, growth, and weakening of the communist movement. With the demise of Mao, Deng threw open the Chinese economy to western capital investments. Much later, President Gorbachev introduced Perestroika and Glasnost in the defunct Soviet bloc. These developments made the general intellectual/ideological space much less favourable to socialism towards the end of the 20th century and the early parts of 21st century. Association of Marxism with atheism, idolatry, and Satanism in the late 20th and early 21st century also contributed to weakening its social acceptability, and supported the re-assertion of bourgeois political economy globally. The theoretical dominance of free market economic ideas had by the start of the 21st century become so strong, that they were as much accepted by social democrats and self professed communists. Pro-capitalist economics owes its dominance both to class interests and its internal coherence. This is not to say however that Marxists have lost relevance totally; as the economic emergence and global relevance of China in recent years, the recent global economic crises and declining economic fortunes in America and Europe, the emergence of North Korea as a possible nuclear power, economic stability in post Fidel Castro's Cuba, and rising influence of the Communist Party in Russia in recent times generally indicate that communism has its good points as an economic system.

Yet it remains a major challenge for neo-Marxists to redefine Marxism with Hegelian philosophy in mind. The Victorian assumption of pluralists that the state is an honest broker of 'free and fair competition' for the 'common good' of society has been swept aside by the fact that power is increasingly held and exercised by owners of the means of production. There is thus need to re-invent Marx's concept of the 'ruling class' in the Hegelian context, as the institutional machinery for placating exploitation and colonizing the workforce by the capitalists. The state in this context is more or less a 'community of interests' of capitalists, and a major instrument for manipulating 'mass consciousness' is the media. In this direction, [Essia \(2012\)](#) explains how Hegelian dialectics can be used to explain the process with which economics has colonized modern thinking and why dialectical idealism has superior analytical currency than Marx's materialist dialectics. According to him, the production, diffusion, and utilization of ideas and information drive Hegel's idealism. In Hegel's view, people were first endowed only with the ability to acquire a sensory understanding of the world around them. Then social forces emerged slowly when population density increased in various locations. The next stage, of self-consciousness occurred when people found forming groups and building societies more beneficial. The third and final stage in Hegel's phenomenology is cosmic consciousness, during which the ultimate fulfilment lies in globalization of the "spirit" of society. Individuals and societies that have reached this stage can identify alternative lines of thought and render them into exportable ideologies. Cosmic conscious individuals and societies often are able to develop and export to others their religions, languages, and economics and political ideologies.

4. LESSONS FROM CHINA AND RUSSIA

An attempt is made here to review briefly the Russian and Chinese experiences of pro-communist governments based on notes provided by [Lee \(2008\)](#). The general thinking is that the Chinese approach was more enduring than the Russian approach because of Mao's efforts at ensuring change in social consciousness before collectivization. This was unlike the case of the defunct Soviet Union where Stalin went straight to collectivization without attempting to effect changes in social consciousness. However comparative experiences of both countries support the case for recast of neo-Marxism in the context of Hegel's philosophy ([Lee, 2008](#)).

4.1. Communist China – A Success Story?

With its victory over the nationalist government, the Chinese Communist Party came to power in 1949. Since then, there have been major disagreements over how the country should be managed. Until 1976, the main disagreements were between party chair Mao Zedong and his followers, "radical leftists" and a more moderate group of party leaders, led by Liu Shaoqi and later by Deng Xiaoping "pragmatists" or "moderates". Following the death of Mao in 1976, the "pragmatists" became dominant and China entered a period of major reform. From 1949 to 1976, Mao's ideology was the dominant influence on Chinese economic policies. In the ten years prior to his death (1966 to 1976), his ideology could be likened to a state religion. Several features of this

ideology should be kept in mind as we attempt to understand the peculiarities of China's communist experience and why it can be regarded as a plus to Marxian political economy.

Firstly, Mao believed that people, through sheer human willpower, could accomplish practically any end. He believed that, if properly mobilized, human resources was more important to economic development than capital or technology. Secondly, unlike Marx, Mao believed in the primacy of politics over economics. Mao intellectually syncretised Hegel's dialectical idealism with Marx's dialectical materialism, and therefore considered ideas, knowledge, information, and indoctrination as critical change factors. Thirdly, following his recognition of the importance of the mental pictures people hold in their minds, Mao sponsored the production of copious pro-communist literature that elevated consciousness of the "communist man" to centre-stage. While the "economic man" is mercantilist, selfish, individualistic, and more concerned with personal gains, the "communist man" is a team player, community focused, and more concerned with the common good than selfish ends.

Fourthly, unlike Stalin in Russia that forcefully imposed communism using collectivisation, Mao first socialised many Chinese around the phenomenon of the "communist man" before proceeding to collectivisation. With social change preceding collectivization, Maoism became a sort of religion, with Mao as the *high priest* and *Messiah*; making it less difficult for its believers to fight for its preservation years after Mao's death. This doctrine of Mao is, to say the least, the foundation of modern Chinese patriotism and social relations. For instance, it is common to see Chinese form and operate sustainable business and social partnerships; they live and eat in groups and have less interest in accumulation of individual wealth in contrast to what obtains in western societies. The Communist man is selfless and capable of total self-denial. His primary motivation is to benefit the group. Mao advocated for "*moral incentives*" for peasants and workers to replace material incentives. To Mao, allowing any type of "capitalist" incentives (such as higher pay) would necessarily lead to reversion to capitalism. Fourthly, for Mao, an equal distribution of income was at least as important as economic growth. This included class and gender equality.

Finally, Mao in line with the Hegelian philosophy believed that class struggle would outlive the revolution. He saw a continuing tendency to revert to capitalism that should be fought continually; making the revolution in permanent state of flux. Hence China's economic history has until recently been extremely unstable, reverting from one set of programs to another and then back again. More generally, in x-raying the Chinese experience, four specific eras are commonly considered, namely: The immediate post War Years (1949 to 1958); *The Great Leap Forward* (1958 to 1961); 1961 to 1978 interrupted by *the Cultural Revolution* (1966 to 1969); and finally the Reform Period (1978 to the present). The first three eras is often called "the Socialist period" (Lee, 2008).

4.2. Immediate Post War Years, 1949-1958

This was a period of recovery from the destruction caused by years of war and revolution. During this period the Chinese attempted to create an economic system similar to that of the

Soviet Union. Aid from the Soviet Union helped finance Chinese industry with the Soviet Union providing important technical assistance, in what can be described as the largest technological transfer between countries ever attempted. This eased technology adaptation and learning as the different skills and competencies required for mastery of the entire production processes were located in one place (Lee, 2008). In line with the economic system of the Soviet Union, the following reforms were implemented:

1. Agriculture was collectivized and land reforms which eliminated landlords and rich peasants' took place between 1949 and 1952. This was followed by merging of the rural population into more advanced types of cooperatives. By 1958, most of the rural population were organized into *communes*. Private ownership in agriculture was virtually eliminated within a six month period.
2. Wholesale and retail trade, and most of industry, came under complete government control by 1956. Enterprises were nationalized. The government also controlled managerial career paths and incentives through the *nomenklatura* system.
3. In 1953, China launched its first five-year plan, modelled after the Soviet material balance planning system. China adopted the "Big Push" strategy. Investment spending was promoted while consumption was restricted. Large industrial projects were favoured despite China's large workforce and shortage of capital goods.
4. Through the planning system, prices were artificially set by the government; prices were artificially raised for industrial goods and lowered for agricultural goods. This eased the transfer of resources from agriculture to industry, and "profits" of industrial enterprises were the main source of government revenue.
5. Government set low wages, and put strong restrictions on worker mobility, especially between rural and urban areas. Incomes were much higher in urban areas than in rural areas.

4.3. The Great Leap Forward, 1958 to 1961

The *Great Leap Forward* was associated with rapid establishment of *communes*. Mao advocated this to check revert back to capitalism. The "pragmatists" had opposed it, believing that collectivization in agriculture should come after the country was industrialized. The commune was an organizational form intended to raise agricultural production significantly while requiring fewer agricultural workers. These surplus agricultural workers were shifted to industry. Nearly 30 million new workers were absorbed into the urban government-owned factories in 1958 alone, with millions more taken out of agriculture to work in rural factories. Mao believed that this organizational change alone, without increased state investment spending, was capable of increasing industrial and agricultural productivity along sides. The Great Leap Forward was equally associated with the development of small scale rural industries using labour and other resources from the rural areas. The people were mobilized along semi-military lines to participate in the campaign. This made a large proportion of Chinese highly mobilized (Lee, 2008).

While Mao believed that substantial increase in agricultural and industrial output could be achieved in a short time, the “pragmatists” believed that the Great Leap Forward was a failure. The communes were poorly managed and encountered considerable peasant resistance. Incentives to produce had been destroyed. Workers were pushed to work overtime seven days a week. It was estimated that by the end of 1961, deaths were in excess of 25 to 30 million people and some 30 million births had been postponed because of malnutrition. The industrial goods produced were often of such poor quality that they were unusable. The push for industrialization also led to problems in finding sufficient transportation, fuel, and raw materials. Often grain was left to rot because transportation was not available while millions were dying of hunger. Moreover in the late 1950s, China also experienced a political rift with the Soviet Union and by 1960 the Soviet Union withdrew its advisors, and the projects that Soviet Union had started were not completed because China did not have the expertise as at then.

4.4. 1961-1978 (Era of the Pragmatists)

Failure of the Great Leap Forward and split with the Soviet Union reduced the influence of Mao. At this time the “pragmatists” became major influences on Chinese policy-making. The pragmatists tended more towards the Marxian dialectics by believing that economic development was more important than political considerations at those early stages of China’s development. They believed (in line with Marx’s dialectics) that, with elimination of the capitalist and rich peasant classes, class struggle was over in China. Accordingly, they reverted to material incentives, such as; share of the profits for enterprise directors and wage bonuses for the workers. In agriculture, decision making was significantly decentralized from the commune to lower levels of government. About 20 million workers were sent back to work in agriculture, and from 1961 to 1965, industrial production doubled while agricultural production rose by 50 percent.

In 1966, Mao strove back to reassert his authority by a campaign to “eliminate revisionism” by enacting the Great Proletarian *Cultural Revolution*. On the one hand, the *Cultural Revolution* was purely a power struggle, but on the other hand it was an idealistic attempt to avoid the emergence of corrupt bureaucratic elites as had occurred in the Soviet Union. The *Cultural Revolution* once again supported Mao’s view that class struggle did not end with the initial overthrow of capitalism and the communists needed to continually fight to prevent a possible return to capitalism. The goal espoused by Mao was “spontaneous development”; socialism was to be created simultaneously with the pursuit of economic development. Many of the policies of the Great Leap Forward were resurrected, including emphasis on *moral incentives*, elimination of the traditional enterprise manager in factories, emphasis on small-scale factories, “resettlement” of millions of people into rural areas, and so forth. The role of profits and bonuses as incentives was ended. Wages were frozen throughout much of the latter 1960s. The late 1960s was therefore characterised by widespread unrest. Various factions fought (often with each claiming itself as the only one true to Mao’s thought). Millions of paramilitary troops, organized as Red Guards, caused widespread disruption. Worker absenteeism was high. Decisions came to be made by very

few people, as workers became afraid to say anything that might be construed as negative (Lee, 2008).

Maoism had differed somewhat from the model of Marxism in the Soviet Union. Five key differences are commonly noted:

1. The economy of China had been militarized with several enterprises run by the armed forces and prisons. Recent estimates indicate that about 90 percent of Chinese made goods are produced by the military and prisons. Production in the Soviet Union was militarized to a much less extent.
2. The Chinese economy had been more decentralized than the Soviet economy. Small businesses were encouraged.
3. China practiced regional as well as national autarky. Not only did China avoid international trade as much as it could, but also its regions were expected to be self sufficient and not trade with each other. This enormously stimulated innovativeness from all regions.
4. For much of the socialist period, there was an absence of material incentives.
5. Labour mobility had been completely restricted.

When Mao died in 1976, evaluation was made of the economic results of his leadership. Some results were very positive. GDP per capita had approximately doubled since 1952, investment rates were high, literacy rates had increased to 65 percent, and life expectancy had risen to 64 years, which was very high given the country's earlier standard of living. But unemployment remained considerably high, and the problem of rapid population growth remained unsolved. The technological level of China was 10 to 20 years behind the West, and as at then about 60 percent of China's capital goods was either inferior or technologically obsolete by Western standards. Productivity was generally very low. The country had suffered from the great instability in policy making; the period from 1949 to 1978 had seen five great surges in investment spending followed by periods of much slower growth (or even a decrease) in investment spending.

4.5. The Reform Period: 1978 to the Present

Following the death of Mao, leadership passed to Hua Guofeng. He had the "Gang of Four" arrested, "rehabilitated" Deng Xiaoping, and began a systematic campaign to destroy the influence of Mao. From 1978 until his death in February of 1997, Deng Xiaoping was the most important leader in Chinese politics. The return to power of the "pragmatists" meant a return to the goal of economic development and reduction in the importance of ideology. The *Four Modernizations Program*, which emphasized the development of agriculture, industry, science and technology, and defence, commenced in 1976. By 1978, a period of substantial reform had begun. China's strategy of reform was one of gradualism, in contrast to the reforms of Russia and Eastern Europe. The earliest aspect of this reform period was restructuring of the agricultural economy and elimination of the communes. It was success of the reforms of agriculture that generated further economic reforms. A second aspect of the reforms was a change in the planning

system. As the economy grew, plan targets became less and less significant and China “grew out of the plan”. By 1993, central planning had been phased out completely. A third important aspect of the reform period was dramatic enlargement of the importance of markets. Consistent with the growing importance of markets, there were major changes in the types of enterprises. Enterprises became more and more focused on profits instead of fulfilling the plan targets. A fourth important aspect of the reform period was the decentralization of decision-making. Personal savings increased and banks gradually replaced the government as the source of funds for business and investment spending. The fifth important aspect of the reform period was increase in Chinese integration into the global economy. This began with the creation of *Special Economic Zones* and then culminated in China’s entry into the *World Trade Organization* (WTO) in 2001. Indeed, China made many more concessions than other countries had to make in order to be admitted to the WTO (Lee, 2008).

4.6. The Communist Economy of Former Soviet Union - Failed Communism?

Communism became a major force in the world with the creation of the Soviet Union following the *Russian Revolution* of 1917. The Revolution was extended by force to much of Eastern Europe, and political revolutions also took communism to China, North Korea, Vietnam, and Cuba leading to the Cold War. But in the 1980s, communist countries took on more and more of the characteristics of market economies, and by the early 1990s, communism had collapsed completely in the former Soviet Union and in Eastern Europe. By 2010 only China, Vietnam, North Korea and Cuba still had what may loosely be described as communist economies. The former Soviet Union was the best example of a prototype communist economy from its inception in 1918 until its collapse in 1991. The key components of communist development in the defunct USSR were: (a) The Big Push, (b) State-Owned Enterprises with a Soft Budget Constraint, (c) Central Planning, (d) Collective Farming, (e) A Shortage Economy, and (f) Trade Autarky (Lee, 2008).

(a) The Big Push

Upon taking power in the Soviet Union in 1929, Stalin prophetically announced that Russia had ten years to overcome 100 years of backwardness if it wished to survive. In order to industrialize quickly, the focus was on “heavy industry”. This required that the government have considerable control over the economy through a highly centralized Communist Party.

(b) State Owned Enterprises with a Soft Budget Constraint

In the former Soviet Union, all enterprises (and all land) were owned by the government, and their managers were bureaucrats. The managers had incentives for meeting the plan targets and targets for production. The passion to meet production targets had two limitations: firstly, the managers had no incentives to increase production beyond the targets because exceeding the

target this year would certainly mean an increase in the plan target the next year; secondly, it made enterprise managers very resistant to change and innovation.

There were equally incentives for enterprise managers to push for enterprise expansion. This encouraged managers of Soviet enterprises to ask for more funds for new capital goods than they actually needed. This phenomenon called “*investment hunger*” was also dysfunctional for at least two reasons. First, government permitted the buying or building of more capital goods than it could possibly afford; often allowing many projects to remain partially completed for years. Second, enterprises became too large, leading to diseconomies of scale. This passion for very large companies has been called “*Gigantomania*”.

(c) Central Planning

The final plan targets were not simply imposed on the enterprise. There was considerable bargaining between the enterprise director and the planning authorities. But meeting the plan targets was mandatory. Central planning also led to certain dysfunctional behaviours; enterprise managers desiring easy targets and plentiful supplies distorted information. Enterprises commonly hired people to go around the country and bribe the directors of other enterprises in order to obtain needed materials. There were also problems with the unit of measurement of the production targets.

(d) Collective Farming

Agriculture was collectivized in a very bloody and destructive manner in the 1930s. Soviet farms were basically of two types, namely; State Farms and Collective Farms. The *State Farm* was operated like any other enterprise, while the *Collective Farm* was operated under a cooperative. Collective Farms commonly averaged more than 16,000 acres and State Farms averaged more than 40,000 acres. Soviet agricultural production rarely reached the goals of the planners. Indeed, the growth rate of agricultural production was quite low by any standard. But the Soviet government tried to extract savings from farm workers through high taxes for investment in industry. This rendered agricultural infrastructure generally poor.

(e) A Shortage Economy

In the former Soviet Union, prices were in most cases set below market-level prices and were rarely changed. The result was shortages of most consumer goods. The pervasiveness of shortages led to forced savings, referred to as “*monetary overhang*”. This means that people had income but could not find anything to spend it on. A shortage economy created and sustained black markets and bribery of government officials became a fact of everyday life.

(f) Trade Autarky

Soviet Union had a policy of “autarky” which resulted from the government seeing other countries as “the enemy”! Imports were limited to those necessary goods that could not be produced at home. Exports, mainly from agriculture, were to earn money to pay for imports. Transactions involving foreign exchange were tightly controlled by the government. The price charged for a good within the Soviet Union and the price charge in international trade had virtually no relation to each other.

The Soviet economy was modelled on the military, and according to official Soviet statistics, from 1950 to 1984, production in the former Soviet Union grew at an annual rate of 7.6 percent, but American estimates had Soviet growth rate much lower at 4.4 percent. Production slowed generally until mid-1980s when production in the Soviet Union may not have been growing at all. By the last half of the 1980s, Mikhail Gorbachev introduced *perestroika*, meaning restructuring. Perestroika only made marginal changes in the economy and between 1985 and 1989, the budget deficit more than doubled. In response, many of the changes of perestroika were reversed, which was an admission of failure. In August of 1991, communism collapsed completely after a failed coup against Gorbachev by hard-line party members. The former Soviet Union broke into different countries and the Cold War eased significantly. In 1991, Boris Yeltsin took over as the leader of Russia, the largest part of what had been the Soviet Union. Since that time, Russia has attempted rapid transition to a market economy. The collapse of Soviet Union notwithstanding, it must be admitted that leaders of Russian Revolution made history in attempting to give practical relevance to the ideas of Marx; nothing like that had ever been attempted!

A major aspect of the transition from communism to a market economy has been the opening of Russia to the world economy. The *ruble* had to be traded internationally. When it was successful in April of 1991, it depreciated in relation to the dollar due largely to very high inflation. Opening to the world economy was also impaired by Russia’s foreign debt, as it took over debts of the former Soviet Union and then added some of its own. By the mid-1990s, Russia’s external debt exceeded \$100 billion dollars. Agricultural performance in the new Russia was poor; meat, milk, egg, and grain production all declined considerably in the 1990s and have rebounded only slowly. Russia failed to become a major exporter of agricultural products despite its enormous potentials. One mistake often made about the former Soviet Union was to equate its military power to economic strength. Despite its nuclear capabilities, the former Soviet Union then and Russia today can at best be classified as a middle income country similar to Mexico, Turkey, and Brazil; less than one-fifth the level of the United States. Openness has tended to reveal an increasing level of poverty and income inequalities.

5. RECONSTRUCTING MARXISM – The Way Forward

Iggers (2012) argues that the crisis of Marxism did not just begin with the collapse of communism in the Soviet Union and the countries of Eastern Europe; but long before, Western Marxism had distanced itself from the Marxist-Leninist approach propagated by the Soviet

Union. He argues further that the crisis of Marxism as a revolutionary working class movement came with outbreak of the First World War, when it was obvious that Marx did not fully understand the social and economic realities of his time. Yet he believes Marx's explanation of development in a capitalist economy on a global scale was in many respect correct. However, Marx had expected the transition from bourgeois society to socialism to occur shortly during his life time following the victorious revolution of the working class. With collapse of the Soviet Union and end of its hold over Eastern Europe, the institutional basis of Marxism as a political movement was weakened globally. Nevertheless the message of Marx that production and the structure of society of every historical epoch is relevant to the political and intellectual history of that epoch, and that development history has revolved around class struggles, between the exploited and exploiters, has remained true for all ages and historical epochs. [Essia \(2012\)](#) further opines that Karl Marx offers an explosive theory of how a world dominated by the mercantilist spirit is illogical and immoral, and, therefore, dialectically unsustainable. Marx rightly argues that unbridled competition cannot be separated from cheating, labour exploitation, and commodity fetishism. This embodiment of material production and exchange in a mercantilist context is perpetually unstable, and prone to crises and eventual collapse.

Equally important is Marx's explanation of how the capitalists mask exploitation through the objectivised separation of labour power and labour time. The labour hired or paid for is far less than the full expression of a worker's capacity to produce. The worker is made to see his labour as merely a mechanical means to an end; which is the wages that is hardly enough to meet his/her needs. This separation makes the worker ignorant of the actual value of his/her contribution to the total product, and hence lacks the legal basis to demand for more reward than the meagre wages. The capitalist systematically ensures that the value of labour power each worker puts into the production process far exceeds the labour time for which he/she is remunerated. Marx also focused on how exploitation can dialectically cause the capitalist economy to collapse: exploitation causes workers to be impoverished leading to a fall in aggregate demand and decline in the rate of profit; falling rate of profit causes employers to lay-off workers and intensify labour exploitation; workers and peasants become violent and demand the revolutionary overthrow of capitalism; and the capitalist system is ultimately overthrown and replaced with a more equitable system.

Many critics have used the continued existence of the global market economy, years after Marx wrote, to fault his excellent revolutionary thesis. Such criticisms unfairly undervalue the real message of Marx; that an economic system that venerates material accumulation is both logically unsustainable and immoral, and more seriously, that workers in capitalist organizations are often paid far less than the value of their marginal product. It follows too that capitalism generally promotes the condition where workers remain poorly motivated to engage in serious reasoning, or reflect on issues beyond the received logic and morality of mercantilism. The workers' intellect is systematically separated from the ability to reason; one no longer implies the other, and reasoning tends to lag behind particularly in the developing world where the infrastructure for learning is poor.

Marx describes the gap between growth in intellectualism and reasoning as the separation of substantive reality from the objective reality, which can occur regardless of whether capitalism collapses or not. An unintended consequence of labour exploitation that Marx did not highlight, but which flows naturally from the Marxian logic is how subversive activities of workers can also cause the rate of profit to fall. Workers who rationally expect to be exploited by capitalists often take subversive steps to protect their buying power through theft, fraud, insider abuses, and other activities that affect profitability of their employers (whether government or capitalist firms). This can explain sundry corrupt practices, insider abuses, and moral hazards that have caused the collapse or bankruptcy of capitalist firms and governments in recent years. Doubtlessly, Marx could not foresee today's knowledge societies where exploitation occurs largely in the context of mental colonization. This underscores the need for neo-Marxists to inject more Hegelian logic into Marx's dialectical materialism.

Woods and Grant (1994) have argued that it is erroneous to interpret the demise of Stalinism as "proof of failure of communism," or inapplicability of the ideas of Marx, because Stalinism and socialism (or communism) is mutually exclusive. Besides, the regimes in the USSR and its Eastern European satellites in many ways were the opposite of socialism. In their view, the total absence of democracy and extreme use of force distanced those socialist regimes from Marxism. Even then, the drift towards capitalism in those countries, far from improving the situation, has caused an unmitigated social and economic disaster and it is difficult to say that the former communist countries are doing better now that they did before collapse of the communist governments.

Bose (2011) also thinks that Marx's focus on concepts like surplus value, class exploitation, commodity production, reproduction and accumulation of capital; and his attempt to rewrite the history of modern society using those concepts stood him out as a distinctive personality in history. Moreover, the fact that poverty has remained the most abiding feature of our social reality, despite the existence of abundant wealth and resources, gives credence to the perpetuity of Marxism. This stark reality of capitalism today, springs out straight from the pages of *Capital* and it was in *Capital* that a theory, which explained how wealth and poverty can coexist, was presented and analysed for the first time. Marx clearly showed that persistence of poverty and rising inequality of income are natural corollaries of the property relations under capitalism, where the workers own nothing but their labour power, while the capitalists own everything else required for the production process. One would therefore agree no less with Milward (2000) that the absence of a substitute for capitalism is tantamount to consigning the human race to a society of inequality as an incentive, unemployment to ensure continued profitability, and poverty to maintain the social hierarchy and systemic instability; conditions that are unsustainable. Ticktin (2010) thinks that the attempt to stabilize capitalism using imperialism, wars, and the welfare state has not taken away its unbalanced building blocks and inherent contradictions.

The way forward for neo-Marxists, as observed earlier, is to syncretise Marxism with Hegel's philosophy and admit that change can come simultaneously from the material base, social relations, and social consciousness. Neo-Marxists equally need to focus less on explaining how

and why capitalism would collapse and work more towards achieving cultural revolutions through 'gradualism'. This has become important because violent revolutions as understood then by Marx could result to an all consuming nuclear war today! Besides it is less likely to have workers unite for a revolution in the manner Marx predicted.

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