

# **The Rise of Democracy in Europe and the Fight Against Mass Poverty in Latin America: The Implications for Marxist Thought of Some Recent Mainstream Papers**

By Howard Petith<sup>1</sup>

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*ABSTRACT:* Recently a number of mainstream papers have treated the rise of democracy in 19<sup>th</sup> century Europe and its instability in Latin America in an eminently Marxist fashion. This paper sets out their implications for Marxist thought. With respect to Europe, Marx's emphasis on political action backed by the threat of violence is vindicated but his justification for socialism is not. With respect to Latin America, the unequal distribution of wealth is the cause of political instability that is, in turn, the root cause of mass poverty. In addition it is possible to explain some of the paradoxical characteristics of neo-liberalism and to make a weak argument for socialism in spite of its rejection in Europe.

## **I. Introduction**

Recently a number of mainstream papers have treated, in an eminently Marxist way, the rise of democracy in 19<sup>th</sup> century Europe and its instability in 20<sup>th</sup> century Latin America. Generally these papers are set out in terms capitalist society in which change is brought about by revolutionary pressure. With respect to Europe the conclusion is that revolutionary pressure forced the extension of suffrage and this, in turn, was responsible for the disappearance of mass poverty in Europe. With respect to Latin America, the conclusion is that the extreme inequality in the distribution of wealth has made democracies unstable and thus has prevented them from bringing about, by fiscal means, a more equitable distribution of income so that mass poverty has remained. The objective of this paper is to briefly describe this research and sketch its implications for the roles of capitalism and socialism in Marxist thought. With respect to Europe it will be argued that Marx and Engels thought that capitalism would cause mass poverty and that socialism, brought about by a combination of political activity and the threat of violence, was only way it could be eradicated. Currently Marxists see capitalism as the

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cause of mass poverty in Latin America and look to socialism as a solution. The mainstream research, with respect to Europe, vindicates the idea of political action and the threat of violence but denies the necessity of socialism; and with respect to Latin America it supplies a weak justification of socialism but shows a redistribution of wealth followed by capitalism and democracy to be a better solution.

The paper is organised as follows: the mainstream work on Europe is set out, the position of Marx and Engels on socialism and capitalism is described in detail, the Marxist policies for Latin America are outlined, the mainstream model of democratic instability is described and interpreted in a way to make it coherent with some of the effects of neo-liberalism on Latin America today, and finally the conclusions are summarised.

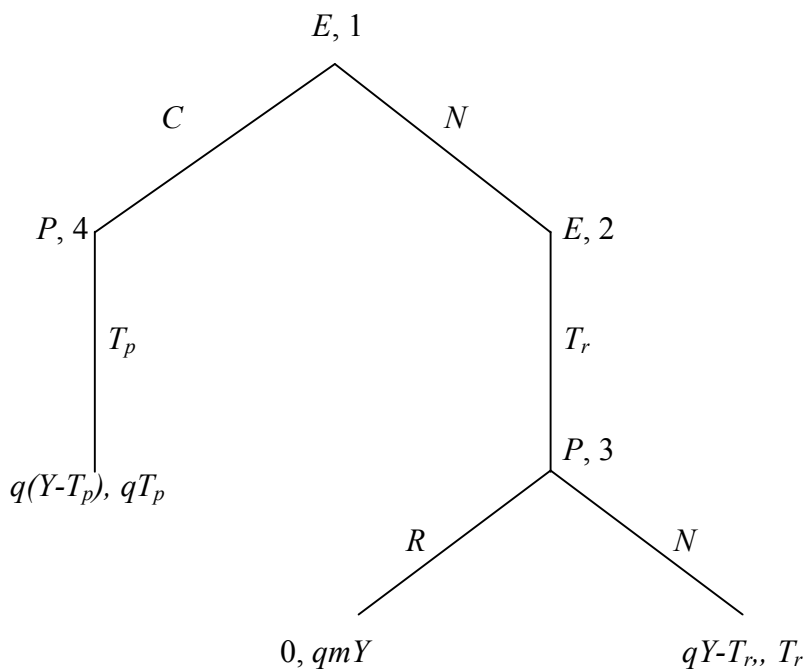
## **II. A Model of the Rise of Democracy in Europe**

The mainstream papers combine careful description with precise modelling. The latter is especially useful since it permits a detailed look at the consequences of hypothetical policies. In order to give the reader a sense of the type of analytic structure these papers have, a simplified version is set out of Acemoglu and Robinson's (2000) explanation of the rise of democracy in Europe.

The development of democracy in Europe during the 19<sup>th</sup> century is mysterious. Why did the elite class permit it when it resulted, via taxes, in their suffering a considerable redistribution of income? A&R's answer is that it was the only way that the elite class was able to avoid a revolution that would have destroyed them. But there is a subtlety. Why could the elite class not have voluntarily raised the taxes they paid, as a bribe, and maintained control of the government? A&R provide an answer to this question in the form of a game played between the elite class and the poor.

In this game the distribution of the wealth is fixed, but the income distribution may be changed by means of taxes. The rich have an income of  $Y$  and the poor 0. When the situation is bad, that is when there is a revolutionary period, the poor can destroy the elite class. This type of period comes along every  $q$  years. If the poor do this they will have an income of  $mY$  in every period from then on, with  $m < 1$  because of the cost of making a revolution. In A&R the game is played over an infinite horizon but one can see the basic idea by supposing that it lasts  $q$  periods.

The game is easily described in terms of the game tree of Figure 1, which represents the situation during a revolutionary period. At node 1 the elite class  $E$  decide whether they will concede suffrage to the poor  $C$  or not  $N$ . If they decide not to, the action moves to node 2 where the elite class decide the tax  $T_r$  they will pay to the poor. It is assumed that  $T_r < Y$ , that is the rich can not pay more than their income as a bribe. The action then moves to node 3 where the poor  $P$  decide if they will make a revolution  $R$  or not  $N$ . If they do the elite class are destroyed and receive 0 while the poor receive  $mY$  for the next  $q$  periods, that is  $qmY$ . It is assumed that  $qm > 1$ , that is that the time between revolutionary periods is sufficiently long that the inequality is satisfied. If they



**Figure 1. The Game Tree**

decide not to make a revolution  $N$  then, in the present period the elite class has  $Y - T_r$  while the poor receive  $T_r$ . Since the next  $q - 1$  periods are not revolutionary ones, the elite class pays no bribe and have  $Y$  in each of them, while the poor receive 0. Thus the payoffs here are  $qY - T_r$  and  $T_r$ .

If at node 1 the elite class decides to concede the right to vote to the poor, the action moves to node 4. An important assumption is that once this concession is made it can not be taken back. At node 4 the poor, who are the majority, vote that the rich must pay a tax  $T_p$ . The same thing happens in the next  $q-1$  periods as well. The result is that the elite class receive  $q(Y-T_p)$  and the poor  $qT_p$ . All this can be read from the tree. In addition it is assumed that the poor cannot completely tax away the income of the elite class, that is  $Y-T_p > 0$ .

How should the game be played? The method of solution is to start from the last move and work backward. Thus start at node 3: the poor will make a revolution unless  $T_r > qmY$ . Thus, moving back to node 4, the elite class must choose  $T_r^*$ , the tax they will pay, so that  $T_r^* = qmY$  since this is the minimum bribe that will avoid a revolution. But because  $T_r < Y < qmY$  since  $qm > 1$ , they can not choose  $T_r$  sufficiently large. This means that if the situation arrives at node 2 the elite class cannot avoid a revolution and will receive 0. If, on the other hand, the elite class concedes the vote, the situation moves to node 4 and the elite class receives  $q(Y-T_p) > 0$ . Thus the correct choice at node 1 for the elite class is to permit democracy.

Thus, why is it that the elite class cannot pay a bribe and maintain control of the government? It is because they cannot commit to pay the bribe during non-revolutionary periods and they do not have sufficient resources in a revolutionary period to compensate the poor for receiving nothing in the long interval between these periods. The development of European democracy, according to A&R, rests on this subtle argument.

### **III. The Mainstream Papers on the Rise of Democracy**

This section presents brief descriptions of the other mainstream papers on the rise of democracy in Europe.

A&R (2000a), in a second paper provide an answer to the question of why the extension of suffrage ended by being universal. Starting from the previous structure, one might wonder why the elite class would not enfranchise just a portion of the middle class sufficient to avoid revolution since this would lower the democratically chosen tax they would have to pay. A&R answer with a three class, asymmetric information model that reproduces the famous advice of Machiavelli: If the elite only conceded limited

suffrage, the disenfranchised group would take this as a sign of weakness and the elite class would be involved in, at best, the cost of quelling a revolution.

A possibly more convincing explanation of the extension of the franchise is given by Justman and Gradstein (1999). They provide a structuralist account of the gradual extension of suffrage and its effect on the income distribution. Initially the franchise was limited to the upper income groups. As income rose, due to the success of capitalism, the disenfranchised groups acquired sufficient resources to cause serious social unrest. Thus at each juncture, the median voter saw it in his interest to extend the franchise in order to reduce these problems. These decisions had two effects: they made the democratically chosen tax structure more and more progressive and they insured that the income of the new median voter was lower than that of the previous one. This process continued until there was universal suffrage and an equitable income distribution.

In the fourth paper, called “Das Human Capital” Galor and Moav (2006) claim that, if Marx had understood the concept of human capital, he would not have written Capital and European history would have been different. They start with two classes, the capitalists who are rich enough to accumulate and leave inheritances and the workers who are not. In addition physical capital is scarce relative to human capital. At a certain point it becomes optimal to distribute savings between the accumulation of human and physical capital. This is done by having free public education financed by a tax on capitalist inheritance which is democratically chosen. As G&M convincingly argue, the capitalists as well as the workers, will vote for the tax which leads to the optimal distribution. After this the accumulation of human capital by the workers eventually leads, at least in the model, to a completely equal distribution of income.

These papers give one pause. On a descriptive level, the two A&R papers and the J&G paper attribute the gains of the lower classes to changes in the structure of laws, taxes and government expenditure and to increased education which raised worker productivity. In fact the J&G paper details the relation between these changes and the three voting reforms that took place in England during the 19<sup>th</sup> century. These three papers emphasise the threat of violence as the motive force. But the G&M paper gives evidence that educational reforms predated the threat of violence and, moreover, provides a logical reason for capitalists as well as workers to have been in favour of the provision of free public education. The overall conclusion is two-fold: Most of the change from mass poverty to a comfortable standard of living for the working class that

occurred in Europe during the 19<sup>th</sup> century was due to the extension of suffrage and the working of the democratic process; and that an important part of this change might have occurred without even the necessity of political conflict.

#### **IV. Marx and Engels in the Light of the Mainstream Papers**

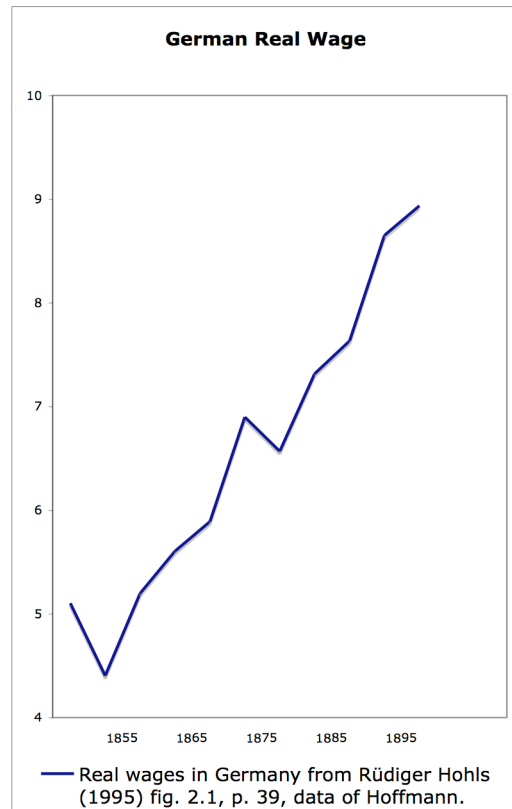
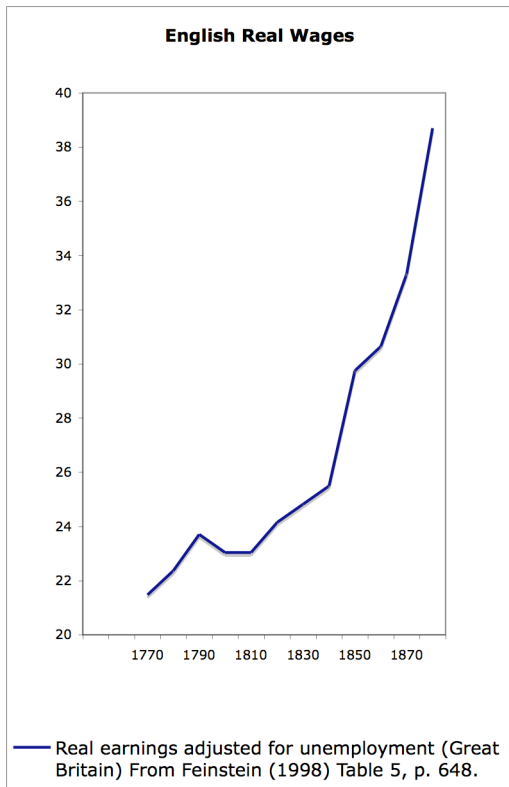
The goal of Marx and Engels was the emancipation of the workers. This section explains why they thought that socialism would be necessary for this and how they thought socialism could be brought about. Finally it considers how correct they were in the light of what actually happened as interpreted by the recent mainstream articles.

Marx and Engels' primary focus of interest was England and Germany. To gain perspective, it is helpful to have before one the movements of the real wages in these countries during the period that Marx and Engels were active, from 1840 to 1896. These are given in the figure below. In both countries, during this period, the real wage came close to doubling. It should be emphasized that, while Marx and Engels were extremely knowledgeable about the events of the labour market, the kind of data upon which these series are based has only recently become available.

The evolution of Marx and Engels ideas can be traced by looking at a sequence of their writings: First consider *The German Ideology*, which was written from the spring of 1845 to the spring of 1847. This is where Marx and Engels set out the theory of historical materialism. An important theme is that history can be viewed as a sequence of property relations in which socialism comes almost as a logical consequence of the development. The main benefit of socialism is to bring alienation to an end and poverty gets barely mention. Socialism is brought about by revolution, but this is not clearly spelled out. The following quote captures this:

In order to become...a power against which men make a revolution, it (the alien attitude of men to their production) must necessarily have rendered the great mass of humanity "property-less" and moreover in contradiction to an existing world of wealth and culture (Marx and Engels, *Collected Works*, Vol. 5, p. 48).

With the *Communist Manifesto*, written between December 1847 and January 1848, things change. It recounts the bourgeois conquest of feudalism and the coming victory of the proletariat. Marx has become ambivalent about how this will happen: At one point he writes: "The violent overthrow of the bourgeoisie lays the foundation for the sway of the proletariat (Vol. 6, p. 495). But later he says:



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 (sounds a bit like Bush), the proletariat will use its political supremacy to wrest, by degrees, all capital from the bourgeoisie (Vol. 6, p. 495).

The eradication of poverty rather than alienation has become the justification for socialism:

The modern labourer sinks deeper and deeper below the conditions of existence of his own class...and here it becomes evident, that the bourgeoisie is unfit any longer to be the ruling class in society...because it is incompetent to assure an existence to its slave within its slavery (Vol. 6, p. 495).

Alienation is not mentioned.

With The Provisional Rules of the Association (The Working Men's International Association) and The Inaugural Address, both written at the end of October 1864, the call for socialism is toned down and poverty is emphasised. In The Rules he states "...the struggle for the emancipation of the working classes means...a struggle...for equal rights and duties and the abolition of all class rule." (Vol. 20, p. 14). While The Address opens with "It is a great fact that the misery of the working masses has not diminished from 1848 to 1864..." (Vol. 20, p.5). And then continues for five pages with a detailed accounts of the bad conditions which are completely different from the mere dramatic references of the Manifesto

Next, in Value, Price and Profit, written in June of 1865, there is the only explicit justification of socialism by Marx that I know of. Value, Price and Profit is a complete version of Vol. I of Capital compressed into 46 pages. In it (Vol. 20, pp. 145-6) Marx explains clearly that the value of labour power is culturally determined but that it has a minimum value that is determined by what is physically necessary to enable a working man to reproduce himself, "The fixation of its actual degree is only settled by the continuous struggle between capital and labour." (Vol. 20, pp. 146.). Marx then notes that the capitalists can create unemployment by raising the composition of capital (Vol. 20, pp. 147-8.). And then he states:

These few hints will suffice to show that the very development of modern industry must progressively turn the scale in favour of the capitalist against the working man, and consequently the general tendency of capitalist production is not to raise, but to sink the average standard of wages, or to push the value of labour power more or less to its minimum level (Vol. 20, p. 148).

Because of this, Marx states "They (the workers) ought to inscribe on their banner the revolutionary watchword, "Abolition of the wages system". (Vol. 20, p. 149).

It seems to me significant that this assertion, that capitalism pushes the value of labour power to the physical minimum, did not appear in Vol. I of Capital that was published only two years later. It seems to me possible that the prolonged rise in wages began to cause Marx to doubt that capitalism would force the wage to the physical minimum.

In The Address of the Land and Labour League of 1869 which was edited by Marx, the justification for socialism is more muted:

the ruling classes have failed to secure the industrious wages-labourer in the prime of his life against hunger and death from starvation...a score of London



working men...came to the conclusion that the present economical basis of society was the foundation of all existing evils,-that nothing short of a transformation of existing social and political arrangements could avail... (Vol. 21, p. 404).

Here the inevitability of bad conditions under capitalism is only implicit.

From 1870 the major issue of whether socialism should be achieved by violent or political means was in the forefront. I will argue that Marx and Engels' view was a subtle mixture of the two.

In his speech on the 7<sup>th</sup> anniversary on the international which he gave on September 24 1871, Marx said:

The Commune was the conquest of political power by the working classes. ...In destroying the existing conditions of oppression ...the only base for class rule and oppression would be removed. But before such a change could be effected, a proletarian dictature would be necessary, and the first condition of that was a proletarian army. The working classes would have to conquer the right to emancipate themselves on the battlefield (Vol. 27, p. 634).

But in The Resolutions of the London Conference on the International, drafted and moved by Marx and Engels and issued October 17<sup>th</sup> 1871 it is stated that:

Considering that against this collective power of the propertied classes the working class cannot act, as a class, except by constituting itself into a political party, distinct from, and opposed to, all old parties formed by the propertied classes:

That this constitution of the working class into a political party is indispensable in order to ensure the triumph of the social revolution and its ultimate end – the abolition of classes (Vol. 22, p. 427).

These seemingly diametrically opposed statements can be seen to be consistent from Marx's report to the Hague conference in September 1872.

We know that institutions, customs and traditions in the different countries must be taken into account and we do not deny the existence of countries such as America, England and...Holland where workers may achieve their aims by peaceful means. That being true, we must also admit that for most countries on the continent, it is force which must lever our revolution, it is force which will have to be resorted to for a time in order to establish the rule of the workers (Vol. 23, p. 255).

Thus a simple resolution of the conflict is that the first refers to countries where force is necessary and the second where it is not.

A more subtle interpretation arises from the experience of the Commune: It was democratically constituted and destroyed by the forces of reaction. The army of the first quote might be necessary for the defence of the democratic achievements against the forces of reaction. This second interpretation will be seen to be consistent with a late quote from Engels.

But I think that the relation between violent and political means in Marx's thought is even more subtle than this. This can be seen by looking at the conflicts within the General Council (of The International) and later within the SPD (The Social Democratic Party in Germany). With respect to the General Council, Engels described these conflicts in a newspaper article, written after September 1872, in which he explained why it had been decided to move the General Council to New York. The current members could not continue for lack of time

And then there were two elements in London both striving to gain the upper hand in the General Council, and in such conditions they would probably have done so.

One of these elements consisted of the French Blanquists, a small coterie who replace discernment of the real course of the movement with revolutionary talk, and propaganda actually with petty spurious conspiracy leading only to useless arrests.

The second dangerous element in London comprised those English working class leaders...(who) would now play a quite different role and the activity of the international in England would not only come under the control of the bourgeois radicals, but probably under government control (Vol. 23, pp. 265-6).

The complaint against the Blanquists and the Bakuninists is straight forward: any immediate recourse to violent means will be defeated by the forces of the ruling class. But, in view of Marx and Engels' advocacy of political means, their complaint against the English working class leaders is less clear.

Engels enlarged on this in a news paper article of February 22 1874. He argued in favour of an independent labour party and against the incorporation of working men's candidates into the Liberal Party.

In order to get into parliament, the "labour leaders" had recourse, in the first place, to the votes and money of the bourgeoisie and only in the second place to

the votes of the workers themselves. But by doing so they ceased to be working men's candidates and turned themselves into bourgeois candidates (Vol. 23, p. 614).

But this is not a fundamental objection since there would be nothing to stop the "labour leaders", once they were in, from raising money in the future from workers and depending only on the workers vote since after the 1865 reform bill "in all big cities they now form a majority of the voters." (Vol. 23, p. 613).

Finally one sees the objection clearly in Marx and Engels' attack on a similar tendency in the SPD led by Eduard Bernstein, Karl Höchberg and Karl Schramm.

Thus in the view of these gentlemen the Social-Democratic party ought not to be a one sided workers' party, but a many sided party of "all men imbued with a true love of mankind." (Vol. 24, p. 264).

Marx and Engels claim that just because the social democratic voters

have sense enough not to beat their heads against a wall and attempt a "bloody revolution" with odds at one to ten, (this does not) prove that they will, for all time, continue to deny themselves all chance of exploiting some violent upheaval abroad, a sudden wave of revolutionary fever engendered thereby, or even a victory won in a clash arising there from! (Vol. 24, p. 265).

They summarise:

For almost 40 years we have emphasised that the class struggles is the immediate motive force of history and, in particular, that the class struggle between the bourgeoisie and the proletariat is the great lever of social revolution (Vol. 24, p. 269).

The key word here seems to me to be "lever". An interpretation that fits well is that the proletariat cannot depend on "a true love of mankind" but must use the threat of violence to pry concessions out of the bourgeoisie.

Returning, for the last time, to the issue of socialism as the way to emancipate the working class, the justification is that capitalism condemns the working class to a wage at the level of physical subsistence. Marx said this clearly in 1865 but not afterward so that he may have begun to have doubts. But Engels, two years after Marx's death, still held this opinion. He admits that wages of factory hands and of workers with trades have improved.

But as to the great mass of the working people...the law which reduces the value of labour-power to the value of the necessary means of subsistence, and the other

law which reduces its average price as a rule to the minimum of these means of subsistence: these laws act upon them with the irresistible force of an automatic engine, which crushes them between its wheels (Vol. 26, p. 299).

He then relates this to socialism:

And that is the reason why since the dieing-out of Owenism there has been no socialism in England. With the breakdown of that monopoly, the English working class will lose that privileged position; it will find itself generally-the privileged and leading minority not excluded-on a level with its fellow-workers abroad. And that is the reason why there will be socialism again in England (Vol. 26, p. 301).

Finally Engels provided a twist to the scenario of the achievement of socialism by political means which was referred to above and which is interesting in the light of what has happened. As quoted by Nimitz (1999, p. 224-5) in a 1892 letter to Paul Lafargue, Engels wrote that universal suffrage is

Slower and more boring than the call to revolution, but its ten times more sure, and what is even better, it indicates with the most perfect accuracy the day when a call to armed revolution has to be made; its even ten to one that universal suffrage, intelligently used by the worker, will drive the rulers to overthrow legality, that is to put us in the most favourable position to make a revolution.

Thus what is the relation between the mainstream papers and the thought of Marx and Engels? It has been argued that they thought first, that socialism would be necessary because capitalism would condemn the working class to a subsistence wage and second, that the way to achieve socialism was by political action backed by the threat of violence. The behaviour of the wage during the time that Marx and Engels were active, and subsequently, shows that their first idea was wrong: capitalism does not force the wage to subsistence and socialism is not necessary for the avoidance of mass poverty. But why did the wage rise? According to the mainstream papers it was, in part, due precisely to the political action backed by the threat of violence. Thus Marx and Engels' second idea was correct in the sense that political action backed by the threat of violence is capable of bringing an end to poverty. It is just that it can do this under a regime of capitalism and democracy, and socialism is not necessary. I think that, in a nutshell, these last two sentences express the lesson of 19<sup>th</sup> century Europe.

## V. Socialism after the Death of Marx

This section very briefly traces the evolution of the Marxist answers, after the death of Marx, to the two questions about socialism: why should it be aimed for and how should it be achieved? The sketch is pieced together from various sections of Howard and King's *History of Marxian Economics*.

The 1891 Erfurt program of the SPD and Karl Kautsky's book, *The Class Struggle*, defined Marxist orthodoxy: The misery of the workers and the concentration of capital was increasing and crises, caused mainly by over production, were becoming worse (Vol. I, pp. 69-71). Isak Bebel actually said that the workers needed only to pick up power after capitalism collapsed (p.72). Only socialism could make possible "the full development of humanity's productive power." (p. 70). Thus the answers to the two questions had changed considerably.

This position engendered the revisionist controversy. Edward Bernstein claimed that wages were increasing, capital was not centralizing and that the crises were becoming milder. He argued (I think) for socialism on the basis of Kantian moral philosophy and thought that it could be achieved by peaceful political means (pp. 71-7). In his reply, Kautsky conceded that wages had risen but maintained the rest of his position (pp. 80-84). Howard and King note the weak level of argument on both sides but say that the victor in both organizational and intellectual terms was Kautsky.

Between this debate and the beginning of the first world war, there were contributions by Rudolf Hilferding, Rosa Luxemburg and Otto Bauer. These concerned the issue of whether or how capitalism would break down and the connections of this with imperialist wars (pp. 91-126). Except with respect to the details of the possible brake down of capitalism, these contributions did not deal with the answers to the two questions.

After the first world war, with the founding of the Weimar Republic with its universal suffrage, revisionism triumphed. Already, in 1915 Hilferding looked favourably on the German tendency toward corporatism: not socialism "but hierarchically and not democratically organized...capitalism better adopted...to meeting the immediate material need of the masses." (p. 272). By 1924 he saw the economy as very well organized but that the problem of unorganized property relations must be resolved by having "democratic organization in place of existing hierarchic forms of control." (pp. 274-5). "Once the proletariat had gained full political power, it could control the state and thus the economy, more over it was growing stronger" (p. 275). Kautsky himself agreed with this and emphasized that "universal suffrage had proved to

be a powerful weapon in the hands of the German proletariat” (p. 276). Also at this time the idea of economic democracy was being pushed by Fritz Naphtali (p. 275). Howard and King summarise this by saying that the revisionists viewed the capitalist organization as harmonious and thought that socialism could be achieved through peaceful democratic means.

Thus, up to this point, the answers to the two questions had changed. There no longer seemed to be any strong argument why one should try to achieve socialism, and with respect to how, it was thought that peaceful political means would be sufficient. Howard and King note that the Nazi seizure of power showed how wrong this second answer was. One might note that, in spite of Engels warning which was perhaps rooted in the fate of the Paris Commune, the German workers were unprepared for the attack of the forces of reaction and were completely defeated.

During the depression and after the second world war, the main thrust of Marxist writing was to consider ways in which capitalism would fail. Barron and Sweezy’s Monopoly Capitalism, which saw lack of aggregate demand as leading to stagnation is an example. In general the two questions of why one should aim at socialism and how this could be achieved were not of central interest. The one possible exception occurs in Sweezy’s The theory of Capitalist development written in 1942. He foresaw (correctly) the world divided into a capitalist and a socialist camp. Rather than a climatic battle, Sweezy (pp. 352-63) predicted that the greater efficiency and social justice of the socialist system would be so evident that the capitalist countries would, of their own volition, move to socialism. Thus the answers to the questions were: Why? because socialism is evidently more efficient and socially just, and how? because, given this, everyone will want a socialist organization.

In Vol. II of Howard and King’s book, the theme of the two questions only occurs in full in the last section, Feasible Socialism, of the last chapter,. The chapter opens with Lange’s argument that central planning can work by mimicking the market and Von Mises and Von Hyack’s criticism that this neglects the problem of worker motivation. Howard and King state that this criticism has been vindicated by the development of the theory of imperfect information and the principle agent problem. In addition they note the poor performance of the Soviet economy in relation to the western capitalist ones. In this context, the question is: what type of socialism is feasible? In answer, they discuss the pros and cons of worker management. They note that this can lead to a type of collective capitalism with important inefficiencies and inequalities that functions even

less well than a capitalism based on private property (Vol. II, p. 378). In addition there is a danger that an economy constructed in this way will lack the dynamism of capitalism that Marx emphasized in the Manifesto (p. 379). However, worker management should be able to improve efficiency by tapping knowledge which is sealed off by the authoritarian structure of wage labour, (p. 379). More over, it is attractive because it is better able, at a firm level, than capitalism to implement the values of liberty, equality and fraternity that are enshrined in our culture. This in turn may provide a constituency, those workers of the cooperative firms, for a wider transformation of society (p. 378). Thus the justification for socialism has become a possible increase in efficiency and the possibility that workers lives will be more in keeping with basic western values. The method of achievement will be peaceful political means supported by a constituency of the workers from cooperative firms.

Looking back at the development from the German Ideology on one sees the following: The emphasis on alienation was quickly replaced in the Manifesto by the notion that socialism was necessary because capitalism pushed the wage to the level of physical subsistence and could be achieved by a combination of political action and the threat of violence. During the 19<sup>th</sup> century this combination served alleviate mass poverty without the introduction of socialism. Marxists then claimed that capitalism would destroy itself and that socialism was necessary and had to be introduced for this reason. Finally the robust health of the capitalist economies and the inferior performance of the socialist ones again shifted the answers to the questions. The adoption of socialism will depend on the political support of the workers of cooperative firms. And the justification, harking back to the German Ideology, is that it may increase efficiency and allow workers to live a life more in harmony with western values. One can not but be struck by the unimportance of the current Marxian objective relative to that of the one that originally motivated Marx and Engels.

## VI. The Marxist Solution to Poverty in Latin America

Latin America now is like Europe at the beginning of the 19<sup>th</sup> century in that it is a group of capitalist economies whose major problem is the existence of mass poverty. According to the lesson of 19<sup>th</sup> century Europe, the solution should be political action backed by the threat of violence. In fact, the threat may not be necessary because, in Europe, it was used to force the extension of suffrage, while in Latin American

democracies this in general already exists. The problem with this solution is that there has been democracy in Latin America for approximately 100 years and mass poverty shows no signs of being alleviated. Thus it seems that the lesson of 19<sup>th</sup> century Europe is not applicable to Latin America.

In the face of persistent mass poverty in capitalist, democratic Latin America, the reaction of Marxists has been to call for socialism brought about either by revolutionary or political means. The examples of the former are Cuba and Nicaragua. This route has not been easy. Cuba has been successful but has had to suffer a blockade and harassment from the U.S.. In Nicaragua, the socialist regime constructed by the Sandinistas was unable to survive the combined military and economic attack of the Reagan administration.

This resistance of the U.S. has begun to convince Marxists that the only feasible route to socialism is via political means. This route is not easy either since the reaction of the Right is to organize disturbances which threaten the governability of the country, a strategy that Engels predicted when he said that the ruling class would act illegally when face with a democratically forced move toward socialism. Chile was an early example where this tactic thwarted Allende's attempt to introduce a mild sort of socialism. This was avoided by the Right only at the cost of having to bear years of military dictatorship. A second example, which seems to be succeeding, is Chavez in Venezuela. But this success is due to special circumstances: He was able to win the first election without revealing his socialist intention, his support by the army avoided a coup which might have followed the disturbances of 2002, and finally, the oil and its current high price have liberated him from the threat of international financial black mail. Since these circumstances are not common, Marxists have begun to think of how, since the revolutionary route has been closed by the U.S. hegemony, it would be possible to move toward socialism by political means.

Steve Ellner (2004) summarized the views of three Latin American Marxists, then commented and they replied. The first of these was Marta Harnecker (2005). Of the three, she was the only one to explicitly state the reason for the move to socialism: "Free...them (the working class)... from material poverty and the spiritual misery which is bred by capitalism" (p. 143). However this is difficult because "If a country decides to put greater emphasis on programs of social development"... (the financial speculators withdraw) "enormous sums of capital from the country, with disastrous consequences" (p. 145). The only way around this is to build the trust of the people with



small socialist projects (p. 150) that may eventually change the current configuration of forces (p. 149). The equation of capitalism with material poverty etc. echoes Marx's 1865 statement and ignores the modern experience of developed countries. And her last idea is similar to the current ideas of Marxists in developed countries. It also runs up against the somewhat crude objection that, after an exhaustive trial in Europe, capitalism and democracy was virtually unanimously chosen over socialism.

The second is James Petras (2005), who argues against a strategy in which the Left allies itself with the national bourgeoisie because they will not work against neo-liberal reforms. He first argues that the resistance of the developed capitalist countries to third world socialism can be overcome by exploiting differences in the international capitalist camp (Ellman 2004, p. 24). He then takes Lula da Silva of Brazil as an example of what happens to the Left if the Centre is taken as a partner: Lula financed foreign debt payments by cutting pensions (pp. 155-6), favoured the agro-export industry at the expense of the peasants (p. 157) because it generated funds for meeting debt obligation (p. 158), and starved the zero hunger program of funds (p.158). Why did he do this? Generally left parties depend on local capital (p. 153), and Lula's campaign was largely financed by "big business contractors, racketeers and industrial capitalists" (p. 156). Since presumably it is the coalition with the centre that leads to values being compromised, the solution is for the left to go it alone (p. 153). This argument calls to mind Engels' argument against a coalition with the reformists, and it has the same weakness. In particular, how can one explain what happened in Europe if the capitalists are always able to buy off the left wing politicians. An alternative explanation would be that Lula is as far left as it is possible to be without having the government fall. To see this one has to ask how long Lula's government would last if there was an exchange crisis because he hadn't cut pensions, or if he tried to service the foreign debt by imposing a European style progressive income tax?

The third is Jorge Castañeda who, according to Ellner (2004) thinks that the revolutionary road is impossible and instead wants a Centre-Left alliance whose goal would be

to reform and humanize the existing capitalist structure, but without replacing it with a new one. (The finance would) come from a vigorously enforce sales tax rather than a progressive income tax...(because) If you go too far they (the capitalists) will just decamp. Either there will be capital flight and capitalist flight - they'll just go and live somewhere else; or

they'll overthrow the government which they are capable of. (pp. 13-4, the first quote is a paraphrase by Ellner, the second is a direct quote.)

Note that Castañeda is explicitly repeating Engels' warning. Later, in an interview with Ellner, Castañeda (2005) explained that there should be "higher taxes so there would be more money available for social programs" (p. 139). And with respect to the political realm "more responsive democracy... in the sense that excluded sectors can get involved ...so that democracy becomes more responsive and consequently more consolidated" (p.139). Ellner criticises this: "whenever the centre-left alliance has reached power in Latin America, anti-neo-liberal goals have been subordinated to other objectives such as the struggle against corruption, effective implementation of social programs and democratization." (p. 18). It seems that he is criticizing the lack of opposition to privatizations, lowering of tariffs and free movement of capital. But there is a more basic gap in Castañeda's program. If the capitalists are capable of overthrowing the government, how can the Left have any bargaining power in a Centre-Left coalition? That is: there is no explanation of how the strategies of a Centre-Left coalition and more democracy can lead to changes the basic configuration of power within the country.

To summarize: First, there is no explanation of why the European solution to mass poverty has not occurred and thus, why socialism is necessary. It is evident that it has not occurred, but it is potentially important to know why, and this issue has not been addressed. Second, there are two obstacles to the establishment of socialism or in Castañeda's case, when looked at closely, following the European route: capital mobility and danger of a coup. Petras presumably thinks that the problem of capital mobility will be neutralized by the divisions in international capitalism, while Harnecker feels that the small projects will not start a capital flight. But only Castañeda faces up to the problem that the coup weapon gives the Right the power of veto over social arrangements. And he has no solution to this.

## VII. The Mainstream View of Latin American Democracy.

Acemoglu and Robinson (2000a) extended the model of section II so that they can consider issues relevant to Latin America. In particular they provide answers to the two questions raised in the previous section: Why has capitalism and democracy not served

to eradicate poverty in Latin America as it has in Europe and how can the coup weapon of the ruling class against improvement of the conditions of the masses be nullified?

Their model is similar to that of section II. In the case that there is a dictatorship, when there is a revolutionary period, the poor may force the concession of democracy by the threat of a revolution. They then extend the model by supposing that, if there is a democracy, when there is a revolutionary period the ruling class can, at a cost, stage a coup and return the system to a dictatorship.

Income can be redistributed by taxes, but it is supposed that it is the underlying distribution of wealth that determines whether democracy is stable or not. If the distribution is extremely unequal then, when there is a democracy and the period is non-revolutionary, the poor will vote for a heavy tax on the rich and there will be a massive redistribution of income. Thus, when a revolutionary period finally arrives the rich will have much to gain by installing a dictatorship and will be willing to bear the cost of a coup. In this case democracy will not be stable. If, on the other hand, the distribution of wealth is not very unequal, the taxes on the rich during non-revolutionary periods will be low, the gains of the rich from a coup will be less than the cost and democracy will be stable.

In this frame work there are three types of democracy. To see this, consider the tax strategy of the poor. It is supposed that it is costly to collect taxes so that the poor would not consider taxing away all of the income of the rich. During a non-revolutionary period, they will choose a tax that maximises the transfer they receive from the rich. But during a revolutionary period there are three possibilities. First, they may continue to charge their optimum tax in the knowledge that, even with this high tax, it will not be worthwhile for the rich to stage a coup. In this case the democracy is called consolidated. Second, in order that it will be optimal for the rich not to stage a coup, the poor may lower the tax. In this case the democracy is called semi-consolidated and will exhibit low taxes during revolutionary periods. Third, it may be the case that even a zero tax will not be sufficient to avoid a coup. The democracy, in this case, is called non-consolidated. It is the distribution of wealth that determines the type of democracy. For example, if the distribution of wealth is very unequal, the taxes in the non-revolutionary periods will be very high, even a zero tax during a revolutionary period will not be sufficient to compensate the rich and they will stage a coup; that is the democracy will be unconsolidated. Generally, as the distribution of wealth falls from

equality to extremely unequally distributed, the type of democracy moves from consolidated to non-consolidated.

This model supplies an answer to the two questions. First, Europe has an equalitarian distribution of wealth, consolidated democracies, a tax system which redistributes income and, thus, has no mass poverty. Latin America, on the other hand, has an unequal distribution of wealth, democracies which are either semi or non-consolidated, a tax system which is unable to redistribute income and thus mass poverty. (In addition one has to suppose that revolutionary periods are frequent.) The model thus supplies a formalization for the alternative reason, given above, for Lula's not moving further to the left. It also spells out the consequences of Castañeda's insight that the capitalists have the ability to overthrow the government. Second, what change would allow Latin America to follow the European path? Quite simply, if wealth could be redistributed sufficiently to consolidate its democracies, then Latin America would come to resemble Europe. The tight logic of this solution highlights the lack of reasoned argument in Castañeda's hope that the combination of a Centre-Left coalition with a more consolidated (here with a different meaning) democracy would bring about an end to mass poverty.

This is the main point, but in order to understand the paradoxical effect of neo-liberalism, it is necessary to emphasize two changes that, according to the model, should serve to consolidate democracy. First, and obviously, anything that increases the cost of mounting a coup will do this. Second anything that makes taxes more difficult to collect will also do this. The reason is that if taxes are more difficult to collect then, during non-revolutionary periods, the optimal tax chosen by the poor will be lower and the gain for the rich from staging a coup will be lower as well. As will be seen in the next section neo-liberalism has affected both of these variables.

## VIII. The Paradoxical Effects of Neo-liberalism as Seen from the Model

Weyland (2004) basing himself on Hagopian (1998) has argued that neo-liberalism has had two effects in Latin America: it has strengthened democracy in the sense of making it more stable and it has, at the same time, increased poverty. Barr (2005) has detailed these effects for Bolivia. This is paradoxical since the implication of the A&R Latin America model would seem to be that a strengthening of democracy should lead to a decrease in poverty. This section illustrates how the model provides a structure for

understanding Latin America by showing how it may be reconciled with these two phenomena.

One can only understand neo-liberalism by reference to corporatism. Corporatism is when the major industries of a country are owned by the government. This is usually associated with powerful trade unions which organise these industries and the absence of foreign capital. Neo-liberalism, or what would be better called the neo-liberal shift, is a movement away from this type of organisation in which the government owned industries are privatised and foreign capital is admitted. The disappearance of the government owned industries weakens the trade unions since the private firms are more difficult to organise and less susceptible to democratic pressure.

Wayland argues that this shift has strengthened democracy for both external and internal reasons. With respect to the former, it has connected the local to the world economy and thus made the local elite more sensitive to world opinion. Signs of political instability can cause capital flight and the United States, in this post cold war period, can be expected to cause problems if there is a coup (p. 139). With respect to the latter, with government owned industry, the poor, via populist politicians, could put pressure on the government causing the elite class to become nervous and turn to the army. Now that the elite class own most of the industry, this route has been closed and they have less to fear from democracy (p.142).

Wayland also argues that these changes have increased poverty. Perhaps the main group to benefit from corporatism were the workers in the government owned industries. They were able to exert pressure on the government through their trade unions which were linked to political parties. These workers worked in the formal sector, had secure employment and were eligible for state benefits and pensions. With the neo-liberal shift, the power of the unions weakened, and many of these workers fell into the informal sector with insecure employment and absence of benefits (Weyland pp. 147-8, Barr p. 71).

To see how this can be made consistent with the A&R Latin America model consider the two effects that can serve to consolidate democracy: raises in the cost of collecting taxes and in the cost of coups. With respect to the former, it is clear that capital mobility has raised these costs. The net revenue generated by a tax increase could easily be negative once the effects of the induced capital flight are taken into account. With respect to the latter, it is clear that the cost of a military coup has increased enormously. But if one widens the definition, this is no longer so obvious.

With much increased capital mobility, the size of the disturbance necessary to cause the fall of a government has decreased considerably. For example the combination of capital mobility and the refusal of the elite class to pay taxes resulted in a catastrophic exchange crisis for Argentina in 2000-2001 and caused the fall of the De La Rúa government (Mussa 2002<sup>2</sup>). Thus it may easily be the case that neo-liberal capital mobility has caused the cost of coups, defined in the broad sense, to fall.

The A&R Latin America model provides two explanations of the paradox depending on which of the two neo-liberal effects dominate. If the increase cost of tax collection dominates, then the Latin American democracies have become consolidated, but the cost of collecting taxes has become so high that it is impossible to use this means for redistributing income and thus mass poverty remains. On the other hand, if the lowered cost of mild coups dominates, then the Latin American democracies have become more semi-consolidated and it is impossible for a government to raise taxes sufficiently to eradicate poverty without provoking disturbances, mainly in terms of fiscal and international financial matters, that will lead to its fall. To focus one's mind, one should ask why there is not a European style income tax in Brazil? There are two answers to the question depending on whether the first or the second effect is important. In the first case the imposition of the tax would cause no crisis, rather that there would be such a flight of physical and human capital and an impoverishment of the country that the poor would be worse off even with the collection of the tax. In this case, although the government was secure, the Brazilian poor would choose not to tax the rich. In the second case, the attempt to impose the tax would lead to obstructionism on the part of the wealthy so that tax receipts might even fall and a capital flight. The conjunction of these would lead to an exchange crisis which would cause the fall of Lula's government and even open the possibility of a military takeover.<sup>3</sup> Thus both cases show how the apparent strengthening of democracy and the increase in poverty that have been brought about by neo-liberalism can be made consistent with the structure of the A&R Latin American model.

## IX. The Implication of the A&R Latin America Model

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<sup>2</sup> See chapter 3, the section titled Collapse. The inability to collect taxes sufficient to pay the debt service was a major cause of the Argentine government's default on its debt.

<sup>3</sup> See Hunter (1998 p. 311). She notes about Brazil that "The military continues to be viewed by many public officials and citizens as the most appropriate institution to combat the most severe internal conflicts..."

There are a number of implications of the A&R Latin America model. First, that in spite of the seemingly paradoxical effects of neo-liberalism, it is the extremely unequal distribution of wealth that is the root cause of mass poverty in the region. Neo-liberalism has raised the cost of taxes and lowered the cost of the mild type of coup, and thus has shifted the balance of power toward the rich. But capital flight is expensive for the rich and this combined with the refusal to pay taxes in order to force a regime change is both expensive and potentially dangerous, as the Chilean example shows. The elite class will only have recourse to these means if the gains are great; and this will only be the case if wealth is extremely unequally distributed. After all, in Europe the wealthy have the same opportunities but the European taxes system survives intact.

Second, the model provides a justification for calling for a change to a socialism of the Socialist block-Cuban type. This in spite of the fact that, in Europe, the combination of capitalism and democracy has been overwhelmingly chosen. The argument is merely that, while capitalism with a consolidated democracy is preferable to this type of socialism, it may easily be the case that capitalism with a non or semi-consolidated democracy is not. (This is an answer to the objection, raised above, to Harnecker's justification for socialism.) As Felipe Perez Roque, the Cuban foreign minister, famously warned the Cubans, "If you choose capitalism and democracy, you will get, not the United States, but Guatemala."<sup>4</sup>

Third, according to the model, a solution to the problem of mass poverty in Latin America is a redistribution of wealth sufficient to consolidate the democracies. This on the presumption, which seems to me more likely, that the Latin American democracies are currently semi-consolidated; that is it is the lower cost of mild coups that dominates. It may be argued that this would be impossible. Even so, I would argue that it is a considerable step forward to have identified the root of the problem.

Forth, and much more speculatively, one might use the model to argue analytically in favour of corporatism instead of neo-liberalism. Corporatism may be more inefficient but it produces a more equitable distribution of income than does capitalism combined with a semi-consolidated democracy.

## X. Conclusion

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<sup>4</sup> This is not immediately obvious from the model because the wealth in Cuba has been redistributed. The threat is the wealth of the Miami Cubans.

The theme of this paper has been the implications for Marxist thought of some recent mainstream papers. Socialism is a major aspect of Marxist thought. Marx and Engels thought it would be necessary for the eradication of the mass poverty in 19<sup>th</sup> century Europe that capitalism necessarily produced. Marxists currently hold similar opinions About Latin America.

The implications of the recent mainstream papers can be briefly summarized. First their explanation of how the eradication of mass poverty in 19<sup>th</sup> century Europe was partly due to a combination of political action backed by the threat of violence vindicates this part of Marx and Engels' strategy. But the fact that it was done without socialism shows that Marx and Engels' notion of the necessity of socialism was wrong. The history of 19<sup>th</sup> century Europe provides no justification for socialism. Second the A&R Latin America model identifies the cause of mass poverty, not as capitalism per se, but the extremely unequal distribution of wealth. It can be argued that a move to socialism would improve the current situation. But the lesson of 19<sup>th</sup> and 20<sup>th</sup> century Europe is that the preferred solution is not a switch to socialism, but rather a redistribution of wealth followed by a regime of capitalism and consolidated democracy. It is perhaps symptomatic of this that Howard and King (2000), in an article entitled "What Marx Got Right", did not include socialism.

*Department of Economics and Economic History*  
*Universitat Autònoma de Barcelona*  
*08193 Bellaterra (Barcelona)*  
*Spain*  
[Howard.petith@uab.es](mailto:Howard.petith@uab.es)

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