

# Marxian Insights from the Mainstream\*

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*ABSTRACT:* Starting in 1999 a group of papers have appeared in mainstream journals that treat of the relation between capitalism and democracy in an eminently Marxian fashion. These analyses bear on a number of papers published mainly in S&S, specifically those of Castañada, Ellman, Harnacker, Nimitz and Petras. This paper provides résumés of all of these works and then sets out the implications of the mainstream papers for the left wing ones. It concludes by emphasising the importance for the left of the mainstream results.

## I. Introduction.

Recently a number of papers have appeared in mainstream journals that have developed the ideas of Marx in an extremely fruitful way. The intention of this paper is to call the attention of the readers of S&S to these papers. Specifically the purpose is to briefly set out the arguments and then show how they yield deep insights into issues that have been raised in a number of articles that have appeared in this journal and in the Cambridge Journal of Economics.

The mainstream papers generally concern the relation between capitalism and democracy. They present theories of the immergence of democracy in Europe and of the long run instability of Latin American democratic regimes. They provide insights into the issues raised by Nimitz (1999) in S&S about the role of Marx and Engels in the democratic break-through in Europe in the 19<sup>th</sup> century and by Howard and King (2001) in the Cambridge Journal of Economics about the antipathy between capitalism and democracy. They are also extremely suggestive about the problem of defending Latin America against neo-liberalism that has been discussed by Ellner (2004, 2005), Casteñada (2005), Harnecker (2005) and Petras (2005), all in S&S.

This paper is structured as follows: The most important of the mainstream papers are the ones by Acemoglu and Robinson (2000, 2000a, 2001). In section II a simplified version of one of their models is set out to give the reader the flavour of the formal structure of their arguments. In section III the works of Nimitz and of Howard and King are first set out along with résumés of the relevant mainstream papers. It is found that these papers partially validate the view of the correct political action that Nimitz

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attributes to Marx and Engels. On the contrary, rather than sustaining the antipathy noted by Howard and King, they seem to indicate that it was capitalism that was responsible for the development of European democracy. In section IV résumés of the positions of Ellner, Casteñada, Harnecker and Petras are given along with one of the relevant mainstream paper. According to the latter, the root cause of the neo-liberal damage in Latin America is not neo-liberalism itself but rather the extreme inequality of the distribution of wealth. In addition, it gives a justification for the Latin American authors' advocacy of socialism in spite of its recent rejection in Europe and even provides a glimpse of a surprising solution to the basic problem. Section V concludes by emphasising the importance for the left of the mainstream papers.

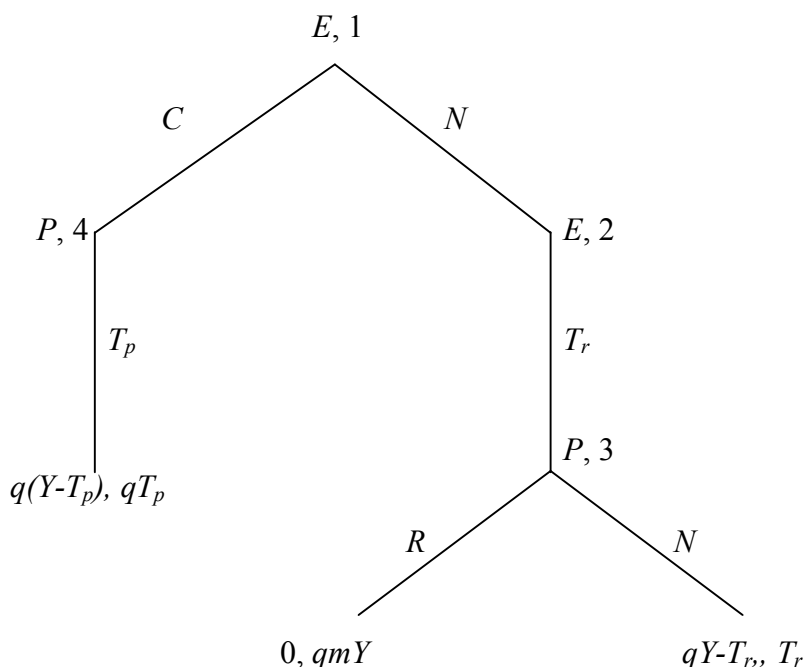
## II. Why is there Democracy in Europe?

This section presents a simplified formal version of Acemoglu and Robinson's (2000) answer to this question. 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 sufferance 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. Explanations of the Current European Situation.**

Europe can be characterised as having capitalism and not socialism, democracy with universal suffrage, and an income distribution that is equitable. Résumés of first the Marxist and then the mainstream explanations of this are given, next some comparisons are made and finally some conclusions are set out.

Nimtz (1999) explains how Marx and Engel's idea of how socialism would come about determined their political program. They thought that the proletariat would get the right to vote, that they would vote to move to socialism, that this would be resisted with force by the capitalists, and that finally socialism would arise from this battle. As a consequence, at a political level, M&E pushed tirelessly for the foundation of political parties that exclusively represented the workers and for universal suffrage. Nimtz emphasises that they were virtually alone in this position since the majority of reformers wanted to alleviate the suffering of the workers but were nervous about giving them political rights. For this reason Nimtz calls M&E the unsung heroes of the democratic break-through.

With respect to the question of why universal suffrage did not lead to socialism, Nimtz notes that both M&E were worried that the workers parties, in pursuit of short term goals, would lose sight of socialism as a long term aim. According to Nimtz, after their deaths this is what happened, opportunism triumphed.

Howard and King (2001) also comment on the relation between capitalism and democracy but they emphasise the antipathy. Capitalism is dependant on liberal property rights. If democracy threatens these, it must be restrained by repression,

ideological conditioning and constitutional impediments. Thus we have capitalism because democracy has been tamed. (See especially pp. 794-5.)

Turning to the mainstream writers, Galor and Moav (2006) in their paper “Das Human Capital” claim that if Marx had understood the concept 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, all 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.

The other two authors emphasise the link between capitalism, democracy and income distribution. Justman and Gradstein (1999) 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.

As noted above, according to A&R there is democracy in Europe today for two reasons, a revolution that would have destroyed the elite class was too expensive on the one hand and, on the other, the elite class could not muster sufficient resources to bribe the workers since they could not guarantee the bribe during non-revolutionary periods. In addition to this, A&R (2000a) argue that suffrage had to be universal since going half way would have been interpreted as a sign of weakness and would have involved the elite class in, at best, the cost of quelling a revolution.

The comparison of these views can be organised around the following question: In Europe today, why do we have capitalism, not socialism; democracy with universal suffrage; and an equitable distribution of income?

Why capitalism and not socialism? Nimitz: the workers parties succumbed to opportunism. H&K: capitalism tamed democracy. A&R: it was cheaper to continue with capitalism rather than pay the cost of a revolution.

Why democracy at all? A&R: it was necessary for the survival of capitalism. J&G: it was a mechanism for decisions within the elite class, pressure from the disenfranchised caused an extension of the right to vote.

Why universal franchise? Nimitz: the workers pushed for it. A&R: it was necessary to avoid the appearance of weakness and the necessity of trying to quell a revolution. J&G: it was the end result of a combination of the logical structure of democracy and pressure from the disenfranchised.

Why an equitable income distribution? A&R: it is necessary to avoid a revolution. J&G: it is the natural consequence of the extension of the franchise. G&M: it is intrinsic in capitalism. Democracy is useful in coordinating the accumulation of human capital.

The over all impression that one has from the mainstream writers is that universal suffrage democracy is the creation of capitalism. For G&M it is merely a convenient way to organise the accumulation of human capital which is intrinsic in capitalist development. But for J&G it is the initial prod of the rising capitalist productivity which is the key to the extension of the franchise. Finally for A&R democracy is the straight forward creation of capitalism as its survival mechanism. Indeed this is in accord with the casual observation that throughout history capitalism is the only mode of production that is associated with universal suffrage democracy.

This, to some extent, corresponds to the position that Nimitz attributes to M&E. They correctly saw that, given capitalism, universal suffrage would be a potent weapon for the workers. What they did not foresee, at least according to the mainstream writers, is that the workers would use it, not to bring in socialism but rather to make capitalism acceptable. But this is the contrary of the position of H&K: It is not, as they claim, that capitalism has tamed democracy, but rather that it is democracy that has tamed capitalism.<sup>1</sup>

#### **IV. Latin American Defence against Neo-liberalism.**

One can define neo-liberalism as a system that allows completely free run to market forces without providing any safe guards for groups which may be hurt. Ellner (2004)

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<sup>1</sup> It should be emphasised that this is but one point in a long and insightful paper.

provided a survey of the ideas of the three Latin American writers on how to defend the region against neo-liberalism and in Castañeda (2005), Harnecker (2005) and Petras (2005) they replied. In addition Ellner (2005) gave a description of the Chaves regime. The preferred solution of these writers would be to move, if necessary by revolution, to a socialist organisation with a much smaller role for markets. However, since the current hegemonic position of the US makes this move impossible, these writers are concerned to find alternative defences: Castañeda advocates political alliances with centre parties to accomplish what is possible; Harnecker various forms of governmental organisation which demonstrate viable alternatives to neo-liberalism; and Petras leftist radical action which takes advantage of the divisions in the capitalist camp. These defences are very much aimed at the symptoms of neo-liberalism.

Acemoglu and Robinson (2000) provide an explanation for the instability of democratic regimes in Latin America. Their explanation is based on an extension of the model presented in section II. In the extended model, when there is a democracy it is possible for the elite class to stage a coup and re-establish a dictatorship. Just as it was impossible for the elite class to bribe the poor to avoid a revolution, it may be impossible for the democratic regime to lower taxes sufficiently to stop a coup. If coups are not feasible at democratically chosen tax levels, the democracy is called consolidated, if taxes can be sufficiently lowered it is called semi-consolidated, and if they cannot be it is called non-consolidated. The type of democracy is determined by the distribution of wealth. If the distribution is quite equal, because of the efficiency loss of tax collection, the democratically chosen income tax will only be slightly progressive and it will not be worthwhile for the elite class to bear the cost of a coup. On the other hand, if the distribution of wealth is very unequal, it will always be in the interest of the elite class to stage a coup once a revolutionary period arrives. Two conclusions arise from this: First Latin American democracies, unlike the European ones, are unstable because the wealth distribution in Latin America is more unequal. Second, that a redistribution of wealth in Latin America would serve to stabilise the democratic regimes. However A&R extend the model to show formally that the act of redistribution may itself lead to a coup.

The A&R analysis suggests answers to a number of questions connected with neo-liberalism in Latin America.

Why doesn't democracy protect the poor against neo-liberalism in Latin America?

I have defined neo-liberalism as allowing complete free play of market forces. In Europe the workers are protected by democracy. The implication of A&R's work is that, in Latin America, they are not because democracy is not consolidated there. This is actually a theme of the three writers: One of Petras' complaints (p. 155) is that Lula da Silva in Brazil "has signed a pact with the IMF to reduce pensions, wages and social programs and set aside a surplus of 4.25% of GNP to meet foreign debt payments". The surplus is necessary to avoid a currency crisis, but the correct way to fund it would be a highly progressive income tax. Of course this is impossible because the Brazilian democracy is not consolidated as is even admitted implicitly by the OECD Economic Survey (2005 p.15) "policy effort is needed to gradually increase reliance on direct, rather than indirect, taxes... including a tax on profits". Castañeda (quoted by Ellner 2004 p.14) describes the semi-consolidated nature of Latin American democracy succinctly: "If you go too far, they [the capitalists] will just decamp. Either there will be a capital flight, and capitalist flight. They'll go and live somewhere else; or they'll overthrow the government, which they are capable of doing."

#### Why should one advocate socialism when it has been rejected in Europe?

History has provided us with a kind of laboratory experiment about the relative merits of capitalism and socialism. In 1945 it divided Europe in two camps and allowed us to see which functioned better. Initially there was some doubt over the outcome. In (1942 chap. XIX) Paul Sweezy predicted that capitalism would eventually expire because it would not be able to compete with the greater efficiency and social justice of the socialist camp. But the fall of the Berlin wall finalised the result of the experiment: European capitalism was preferred to socialism. This being the case, the advocates of socialism for Latin America have a case to answer.

But A&R provide a theoretical framework for the answer that was given recently in the Cuban parliament by the foreign minister Linares. He noted that if the Cubans chose capitalism over socialism it would not transform Cuba into the United States but into Guatemala. In terms of the A&R framework, this example shows that, while it may be better to live in a capitalist economy with a consolidated democracy, it is better to live in a socialist state than a capitalist one without a consolidated democracy.

#### How can Latin America be Defended Against Neo-liberalism?

There are two points: First, according to A&R, Latin America would be safe from neo-liberalism if it had consolidated democratic regimes and further that this can be achieved by a redistribution of the wealth. This provides insights into a number of



events: The instability during the redistribution is illustrated by the fall of Alende and by the attempt to unseat Chaves. The stability of the Cuban government is due to the successful redistribution. The revolutionary opportunity branch of Chavism described by Ellner (2005) has, as a policy, the redistribution of wealth which will, according to A&R, stabilise the government. But all these examples illustrate how problematic any attempt at redistribution is. Thus we are far from having a solution, but at least identifying the problem is a considerable advance.

The second point is that a practical solution may be implicit in the analysis. This idea, that democracy can be stabilised by an equitable wealth distribution, has appeared in the best of the mainstream journals. It may just be a momentary blip, but if it were to take root and become the conventional wisdom, it could bring about a basic change in American policy. One might say that the two basic values of the society of the United States are democracy and private property. Up until now, any program of wealth redistribution in Latin America has ignited strong North American resistance as being, uniquely, an attack on private property. But if these programs came to be seen as a means of stabilising democracy as well, it would introduce an element of ambiguity into American policy at the very least. Before one dismisses this as completely impossible, one should remember that one of the motives for the immensely expensive American intervention in Iraq was to bring democracy to the Middle East.

## **V. Conclusion.**

This paper has two objectives. The first is to set out the implications of current mainstream research for themes that are central to Marxist thinking. I think that they are important and provide both new insights and deepening of old ones.

The second has been, up to this point, only implicit. It is the following: the mainstream has powerful techniques which are immensely useful in the analysis of issues which are important to us on the left. But a reading of these papers gives the impression of a lack of passion, the issues have the appearance of mere intellectual puzzles. The second objective of the paper is to appeal to economists on the left to familiarise ourselves with this literature and to learn its techniques so that the passion can come together with the technical power and understanding of these central issues can move forward.

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