

Herr, Hansjörg

**Working Paper**

## The Communist Manifesto: What can we learn today for a country like Vietnam?

Working Paper, No. 98/2018

**Provided in Cooperation with:**

Berlin Institute for International Political Economy (IPE), Berlin School of Economics and Law

*Suggested Citation:* Herr, Hansjörg (2018) : The Communist Manifesto: What can we learn today for a country like Vietnam?, Working Paper, No. 98/2018, Hochschule für Wirtschaft und Recht Berlin, Institute for International Political Economy (IPE), Berlin

This Version is available at:

<https://hdl.handle.net/10419/175324>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*



Hochschule für  
Wirtschaft und Recht Berlin  
Berlin School of Economics and Law

Institute for International Political Economy Berlin

# The Communist Manifesto – What can we learn today for a country like Vietnam?

Author: Hansjörg Herr

Working Paper, No. 98/2018

Editors:

Sigrid Betzelt  
Martina Sproll  
Reingard Zimmer

Eckhard Hein  
Christina Teipen

Martina Metzger  
Achim Truger

Jennifer Pedussel Wu  
Markus Wissen



## **The Communist Manifesto – What can we learn today for a country like Vietnam?\***

**Hansjörg Herr**

### **Abstract**

Today we can learn from the Communist Manifesto that unregulated markets lead to disastrous economic, social, and political developments, which can endanger the reproduction of the capital system itself. The liberal argument, based on Adam Smith's invisible hand – that markets coordinate the selfish actions of millions of people and lead to the welfare of nations –, is a dangerous dream. The consequence is that politicians should not listen to economists, including foreign advisors who preach the liberal dreams of radical versions of capitalist systems. Especially for developing countries, it is vital that they strive for a regulated version of capitalist development. Marx and Engels had a deep understanding of the functioning of capitalism. They underestimated the possibilities to regulate the capitalist system and also allowed the working class to take part in prosperity. However, there is always the danger that capitalist systems evolve with low levels of regulation with the features of capitalism analysed in the Manifesto.

**Keywords:** Marxism, Communist Manifesto, capitalism, development strategy

**JEL Codes:** B14, B30, O11

### **Contact:**

Hansjörg Herr

email: [hansjoerg.herr@hwr-berlin.de](mailto:hansjoerg.herr@hwr-berlin.de)

**Acknowledgements:** For helpful comments I thank Eckhard Hein.

## **1. Introduction**

When Karl Marx and Friedrich Engels in 1848 published the Communist Manifesto, Europe was in a very unstable constellation. The text was written a few weeks before the French February Revolution in 1848, overthrowing the so called Orleans Monarchy. In June of the same year, a bloody but unsuccessful rebellion by the Paris workers took place; in December 1848, Louis Napoléon Bonaparte, who later became the last French monarch, was elected. Revolutions also took place in Germany, Italy, Hungary, Austria and other European countries. These revolutions were accompanied by a sharp economic crisis, which had started in 1846 and lasted until 1848. The Communist Manifesto is an important contemporary document. On the one hand, it provides deep insights on the functioning of capitalism; on the other hand, capitalism over the last 170 years has underwent developments which could naturally not be correctly anticipated by the authors of the manifesto.

In the first part it is shown that Marx and Engels had a deep understanding about the functioning of capitalism. The second part discusses the development of the proletariat, or working class, as a revolutionary class. Different types of capitalism are discussed in the third part. The relevance of the Communist Manifesto to the Vietnamese experience will then be considered in the final section.

## **2. Instabilities and brutalities of capitalism**

Marx and Engels stress capitalism as a system which permanently revolutionizes production and technologies and at the same time increases uncertainty of almost all members of society, noting that “Constant revolutionizing of production, uninterrupted disturbance of all the social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones.” (Marx and Engels 1848: 11) Joseph Schumpeter (1942: 82f. ) later stressed the same idea when he described the capitalist dynamic as “creative destruction”, a "process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one". In both approaches, the hunt for extra profits in thousands of enterprises, achieved via better technologies and/or better products than competitors, is the main impulse for the permanent revolution of production and consumption in a capitalist system. This permanent revolution of production

and consumption is reinforced by a credit system which is able to finance economic expansion without prior savings. Last but not least, the state takes over the function of supporting technical progress to gain a competitive advantage over other states. For the last aspect, see especially Mazzucato (2013).

Capitalism has been able to increase the productive forces in society to an extent which was unthinkable in previous modes of productions. “The bourgeoisie during its rule of scarce one hundred years, has creates more massive and more colossal productive forces than have all preceding generations together.” (Marx and Engels 1848: 13) Before the 18<sup>th</sup> century, output per person remained almost unchanged for centuries and population growth was very low.<sup>1</sup> This fundamentally changed with the capitalist mode of production. Marx and Engels were aware of this power of the capitalist system in spite of the fact that in 1848, when the Manifesto was published, mankind did not know the modern automotive, railways, planes, cell-phones or computers.

However, in spite of the enormous power to increase the productive forces, the capitalist system is “like the sorcerer, who is no longer able to control the powers of the nether world whom he has called up by his spells.” (Marx and Engels 1848: 13) And they continue: “It is enough to mention the commercial crises that by their periodical return put on its trial, each time more threateningly, the existence of the entire bourgeois society. In these crises a great part not only of the existing products, but of the previously created productive forces, are periodically destroyed. In these crises, there breaks out an epidemic that, in all earlier epochs, would have seemed an absurdity – the epidemic of over-production.” (Marx and Engels 1848: 13f.) Such epidemic crises can be found in capitalism until today. The latest one was the Great Recession, which broke out with the end of the real estate bubble in the United States in 2007. After 2007, the majority of developed Western countries suffered from systemic financial crises which led the global financial system to the edge of a meltdown that could only be prevented by heavy government interventions, including nationalisations of financial institutions. GDPs worldwide were shrinking and unemployment rates were sky-rocking (Stiglitz 2010). Even one decade after the Great Recession, the crisis in many countries is not over (for Europe Herr 2017).

---

<sup>1</sup> World output increased between the year 0 and 1700 by annually 0.1% which was the same as population growth. Between 1700 and 2012 world output annually increased by 1.6%, world population annually by 0.8%, leading to an increase of world output per capita of annually 0.8% (Piketty 2014:72f.) This is an enormous increase. Let us assume an output per capital of 100 in the year 1700. Given the annual growth rate of 0.8% output per capita reaches a value of over 1201 in the year 2012.

The Great Recession was not a singular event. The Great Depression in the 1930s had arguably more significant global dimensions, mainly because governments did not adequately react to the crisis. And there is a long list of “normal” crisis with financial market problems, collapse of demand, shrinking production, increasing unemployment and unused physical and human capacities to produce – an absurdity in all earlier epochs (Kindleberger and Aliber 2005).

Employment development is very much linked to the rhythm of capitalist accumulation. “These labourers, who must sell themselves piecemeal, are a commodity, like every article of commerce, and are consequently exposed to all the vicissitudes of competition, to all the fluctuations of the market.” (Marx and Engels 1848: 14) Unemployment is the usual state of affairs in capitalist economies. Since the establishment of the capitalist mode of production in the 18<sup>th</sup> century, full employment – defined as a situation in which all individuals in a society who want to get a job at a given price for labour can get one – was an exceptional constellation. There is obviously no market mechanism in the labour market, in spite of the fact that labour is a commodity, which can create full employment.<sup>2</sup>

Marx and Engels stressed that unequal distributions of wealth are endogenous processes of the market. “But in your existing society, private property is already done away with for nine-tenth of the population; its existence for the few is solely due to its non-existence in the hands of those nine-tenths.” (Marx and Engels 1848: 22) Wealth inequality in capitalism is high. Thomas Piketty (2014: 284) showed that in the United States in 2010 the top 10% of the population owned 70% of wealth (the top 1% owned 35%); the bottom 50% owned a meagre 5%. Without a radical change in politics, and before Donald Trump became the 45<sup>th</sup> President of the United States, Piketty expected that in 2030 the top 10% of US-Americans would own 90% of total wealth, the top 1% would own 50%, and the bottom 50% would maintain only 5%. It is surprising that the expected 2030 figures perfectly fit to the wealth distribution mentioned in the Communist Manifesto. The expected distribution of wealth in the United States in 2030 is not only a vision for the future; it was reality in Europe around 1910 (Piketty 2014: 246f.). After World War I, the Great Depression in the early 1930s, and the New Deal after the election of President Franklin Roosevelt as President of the United States in 1933,

---

<sup>2</sup> The belief that the labour market works like a normal market and flexible wages lead to an equilibrium in the market, to full employment, is one of the pillars of neoclassical or mainstream thinking. Marx and Engels obviously did not believe in such a mechanism. They have this in common with Keynes (1936). See also Herr (2014) for the Keynesian paradigm.

wealth distribution became more equal. Especially after the conservative revolution (Harvey 2005) in the late 1970s and 1980s, however, wealth inequality increased again.<sup>3</sup>

Highly inequitable wealth distribution adds to unequal income distribution as profit incomes (dividends, interest, distributed profits, etc.) flow to a small number of wealthy households. Wealth concentration leads to a concentration of political power and endangers democratic systems as the wealthy elites can support political campaigns, run for president, influence or own large parts of the media, etc.

For Marx and Engels (1848: 12), capitalism is a powerful globalisation project as the bourgeoisie in the developed world have an interest to expand their markets. “The bourgeoisie [...] draws all, even the most barbarian, nations into civilisation [...]. It compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it compels them to introduce what it calls civilisation into their midst, *i.e.* to become bourgeois themselves.” Indeed, all traditional civilisations which came in contact with capitalist systems were faced with ruin. Historically, the 19<sup>th</sup> century forced countries to open up to international trade and foreign investment. Good examples are the Opium wars in 1839-1842 and 1856-1860, which forced China to open up to the capitalist world. Also, the extensive trade with African slaves was not a glorious chapter of early capitalist development. Only in 1870 Portugal ended the last trade route with the Americas where the last country to import slaves was Brazil. Many of the less developed countries which integrated into the world market became distorted capitalist systems which until today were not able to catch-up to real output per capita levels of developed countries (see Herr and Ruoff 2018).

### **3. Development of the working class as revolutionary class**

So far we can conclude that Marx and Engels very well captured the main features of a capitalist economic system. In this section we discuss their analysis of the labour market in more detail, especially with respect to wages, and consider the conclusions they drew for the working class.

---

<sup>3</sup> The United States is taken as an example for a country with a relatively unequal wealth distribution. But most other countries show almost similar inequalities and developments of wealth distribution. For example, Piketty (2014: 284) calculated that in Europe in 2010 the top 10% owned 60% of wealth (the top 1% owned 25%) and the lowest 50% also only a scandalous 5% of total wealth.



It is pretty clear that they believed that under a capitalist system, real wages, meaning the basket of goods which can be bought by a certain nominal wage, will fall to low levels, or at least will not substantially increase. “Hence, the cost of production of a workman is restricted, almost entirely, to the means of subsistence that he requires for maintenance, and for the propagation of his race.” (Marx and Engels 1848: 15) Later in his “Capital”, Marx followed the same line of argumentation, but added a historical and moral element to the basket of goods encompassed in a worker’s wage.<sup>4</sup> In principle, Marx and Engels followed the argumentation of Adam Smith and David Ricardo and other Classical Economists who fixed the real wage by the reproduction needs of workers. Even substantial increases in productivity would not benefit the worker, but would rather increase profits (see also the analysis of the production of relative surplus-value in Marx 1867).

As labour creates all values, and the wages workers get remain lower than the value they create, the capitalist class is able to acquire the surplus value as profit without working.<sup>5</sup> Productivity increases would, as mentioned, primarily benefit wealth owners. This implies that capitalism, as other historical modes of production, is characterised by exploitation; for example, wealthy households which inherited their wealth without any efforts cash up dividends, interest or economic rent.

In the Manifesto, Marx and Engels argued that real wages for the working class would fall to such low levels that the capitalist system would be in danger to destroy itself. “Hitherto, every form of society has been based, as we have already seen, on the antagonism of oppressing and oppressed classes. But in order to oppress a class, certain conditions must be assured to it under which it can, at least, continue its slavish existence. The serf, in the period of serfdom, raised himself to membership in the commune, just as the petty bourgeois, under the yoke of the feudal absolutism, managed to develop into a bourgeois. The modern labourer, on contrary, instead of rising with the progress of industry, sinks deeper and deeper below the conditions of existence of his own class [...]. And here it becomes evident, that the

---

<sup>4</sup> “The value of labour-power is determined, as in the case of every other commodity, by the labour time necessary for the production, and consequently also the reproduction, of this special article. (...). On the other hand, the number and extent of his so-called necessary wants, as also the modes of satisfying them, are themselves the product of historical development, and depend therefore to a great extent on the degree of civilisation of a country (...) In contradistinction therefore to the case of other commodities, there enters into the determination of the value of labour-power a historical and moral element.” (Marx 1867: 120f.)

<sup>5</sup> Management activities are considered as work and value creating. However, the high salaries for managers since the introduction of the share-holder value principle as corporate governance strategy in the 1990s include profit elements. Also Keynes (1936) argued that all values are created by labour. His explanation for profit as income gained without work is different from the Classical explanation. For him the profit rate is given by the interest rate (plus a certain mark-up) both determined in the asset market (Keynes 1936: chapters 16 and 17).

bourgeoisie is unfit any longer to be the ruling class in society, and to impose its conditions of existence upon society as an over-riding law. It is unfit to rule because it is incompetent to assure an existence to its slave within its slavery.” (Marx and Engels 1848: 19)

In addition, they assumed that the working class would become more and more homogenous and increase its power. Capitalism has “simplified class antagonism” (Marx and Engels 1848: 9), “but with the development of industry the proletariat not only increases in number; it becomes concentrated in greater masses, its strength grows, and it feels that strength more. The various interests and conditions of life within the ranks of the proletariat are more and more equalised, in proportion as machinery obliterates all distinctions of labour, and nearly everywhere reduces wages to the same low level.” (Marx and Engels 1848:16) The conclusion of this analysis is clear: “What the bourgeoisie therefore produces, above all, are its own grave-diggers. Its fall and the victory of the proletariat are equally inevitable.” (Marx and Engels 1848: 19) The proletariat as the ruling class would then “increase the total productive forces as rapidly as possible” (Marx and Engels 1848: 27).

There are two problems with the argument by Marx and Engels. First, Marx and Engels (1848: 18) argued that the lower middle-class (small manufacturers, shopkeepers, peasants etc.) would be most likely “conservative” and “the ‘dangerous class’, the ‘social scum’” would be “a bribed tool of reactionary intrigue”, but they did most likely not imagine that a reactionary government can be elected. But, for example, in Germany Adolf Hitler in the election in 1933 got 43.9% of votes and could together with two smaller radical right-wing parties form the government. Critical economic constellations as in the 1930s can obviously also lead to strong right-wing and even fascist movements.

The second point is related to the development of the living standard of the proletariat. Karl Polanyi (1944) argued correctly, following the arguments of Marx and Engels, that a largely unregulated capitalist system is extremely unstable and cannot survive. Even the reproduction of parts of the working class would not be guaranteed in such a system. In a comprehensive historical analysis, he showed the destructive forces of the capitalist system in the first half of the 19<sup>th</sup> century. This period was characterised by frequent economic crises including breakdowns of financial markets and extremely bad conditions in labour markets, such as very low wages for part of the working class, widespread child labour, extremely uncertain working conditions, and so on.

Then Polanyi convincingly showed how during the second part of the 19<sup>th</sup> century, the key areas of developed capitalist economies became regulated. These regulations were partly the result of pressure from trade unions and workers' parties, but were also a product the bourgeoisie efforts to stabilize the system. Let us take Germany as an example. Law amendments in Germany in approximately 1860 led to a reduction of excessively long working hours, which had substantially increased during the first half of the 19<sup>th</sup> century.<sup>6</sup> In addition, especially vulnerable groups, such as children or pregnant women, received protections. In Germany in the 1880s, under Chancellor Otto von Bismarck and the conservative monarchy, a widespread social security system was established including public health insurance, accident insurance and a public pension system (the last one in 1891). These reforms were certainly at least partly driven by the increasing power of the General German Workers' Association<sup>7</sup>, founded in 1863, which became the Socialist Workers' Party of Germany in 1875.<sup>8</sup>

Also during this time, financial markets became increasingly regulated. Towards the end of the 19<sup>th</sup> century, the so called Classical Gold Standard evolved. In particular, it became characterised by fixed exchange rates and the hegemony of England with the dominating international role of the Pound Sterling. The English high finance, an oligarchy of London based banks, took over stabilising functions of the system by helping countries in exchange rate and financial crisis. Financial systems became more stable, as from around 1850 on more and more central banks convinced the monopoly to print bank notes; skills in monetary policy by central banks increased, including for example an understanding of the role of the central bank as a lender of last resort (see Polanyi 1944; Bagehot 1873).

Overall, in the second half of the 19<sup>th</sup> century, the living standards of large parts of the proletariat also increased substantially in developed capitalist countries. Instabilities existed, as always in capitalism, but they could be kept under control. Excesses in labour markets could be reduced. In short: Marx and Engels underestimated the possibility of the capitalist system to increase the living standard also of the proletariat and to tame the destructive powers of market forces. With this development, the implicitly assumed automatism by Marx and Engels – that the fall of the bourgeoisie and the victory of the proletariat would be equally

---

<sup>6</sup> In the year 1800 in Germany, the daily working time was around 10 to 12 hours and 60 to 72 hours per week. In 1860, the daily working time had increased to 14 to 16 hours and 80 to 85 per week. Then working time started to fall slowly. In 1870, it still was daily 12 to 14 hours and 78 hours in a week (Schneider 1984).

<sup>7</sup> Allgemeiner Deutscher Arbeiterverein.

<sup>8</sup> Sozialistische Arbeiterpartei Deutschlands. It should be mentioned that the Communist Party of Germany (Kommunistische Partei Deutschlands) was founded in 1918 after the split in the German workers' movement starting with the beginning of World War I in 1914.

inevitable – did not materialise. This argument is even more valid for the regulated type of capitalism which developed after World War II and existed until the 1970s. This historical phase led to prosperity and a high level security for large parts of the population in the developed capitalist world.

#### **4. Different types of capitalism**

Polanyi (1944) theoretically and empirically showed that some markets, including labour, money, and natural resource markets, have to be controlled and cannot be left to market forces. In these markets, the goods traded are fictitious goods, which cannot be produced as normal goods, such as braces or computer chips.

Workers have to sell their labour power in the labour market. In fact, a contract of labour is a kind of leasing contract. If there is a surplus of labour and a substantial part of workers do not find a job, the unemployed workers do not quickly disappear – as for example apples that cannot be sold. Also, a fall in the price of apples is likely to increase the demand for apples. For labour, such a mechanism does not exist (see Keynes 1936; Herr 2014). A shortage of workers, which is also possible in certain historical circumstances, cannot be easily solved by dictating families to have more children. Even the shortage of certain skills is not solved easily, as education and training takes time or might be difficult to achieve for a society or scientists in a certain field. Last but not least, the working power is linked to human beings. Already this implies that the labour market has to be comprehensively controlled and regulated.

Money is not produced, but it is created by the central bank ad hoc, or as Schumpeter (1911) called it, “out of nothing”. It is the central bank, together with the banking system, which creates money. The supply of the money in this way is a major achievement as no commodity, for example gold or silver, would have the necessary elasticity to adjust to the needs of economic development. It is obvious that money creation has to be controlled by the central bank, which has the monopoly to create banknotes.

Financial systems are endogenously unstable and create unsustainable credit booms. Asset price bubbles, for example in real estate or stock markets, are driven by expectations that are not anchored in firm fundamentals. In addition, different economic agents can believe in different fundamentals, for example when they believe in different economic paradigms, as

even professional economists do. In addition, asset markets are dominated by herding and speculation. Unregulated international financial markets lead to boom-bust cycles, high indebtedness in foreign currency in developing countries and financial crises. Uncontrolled financial markets are extremely dangerous for economic development and lead to financial crises, deep recessions and potentially long periods of stagnation (for an analysis see Herr 2011; Detzer and Herr 2015).

Polanyi (1944) points to nature as the third commodity which cannot be left to market forces. From Marx's theoretical perspective, it is obvious that not only labour is exploited, but also nature. "Capitalist production, therefore, develops technology, and the combining together of various processes into a social whole, only by sapping the original sources of all wealth — the soil and the labourer:" (Marx 1867: 330)<sup>9</sup> Polanyi showed that medieval commons, i.e. collectively owned land, were overused and destroyed under capitalist conditions. Behind this development was a similar process which has today led to excessive fishing and the extirpation of species. The same can be attributed to the short-term oriented consumption of scarce natural resources or the excessive carbon dioxide emissions. The market mechanism without comprehensive government interventions cannot solve ecological problems. Unregulated markets destroy the reproduction of mankind. From an historical perspective, the capitalist system can be a mechanism for increasing productivity and developing new and powerful products, but its structure inevitably leads to a situation where production, consumption and technological development are pushed in the wrong direction.

There is no doubt that capitalism needs comprehensive regulations in labour, money and nature markets. Without such regulations it would not be able for capitalism to survive. In its historically short lifetime, different types of capitalism existed with different levels of regulations. Looking at the development of the leading capitalist countries, the following sequence can be identified: From the beginning of the capitalist mode of production in the 18<sup>th</sup> century until the middle of the 19<sup>th</sup> century, a type of capitalism developed which was characterized by a low level of regulation – the revolutionary bourgeoisies' model of a liberal economy. The evolving type of capitalism was highly unstable with extreme social distortions. In the second half of the 19<sup>th</sup> century, regulations and institutions led to a more stable type of capitalism (Polanyi 1944).

---

<sup>9</sup> See also: "Moreover, all progress in capitalistic agriculture is a progress in the art, not only of robbing the labourer, but of robbing the soil; all progress in increasing the fertility of the soil for a given time, is a progress towards ruining the lasting sources of that fertility."(Marx 1867: 330)

World War I, and the following economic and political disasters, subsequently destroyed this type of capitalism. Attempts after World War I to re-establish the pre-war order failed. A number of economic and political factors – for example real estate bubbles in the 1920s, unsuccessful efforts to re-establish the Gold Standard, the failure of the United Kingdom to defend the hegemonic position it held before World War I, the refusal of the United States to take over this position, or misguided fiscal and wage policy to fight against crises – led to the Great Depression and all its political consequences, including German fascism and World War II. These developments led in the 1930s in the United States to the New Deal. Key elements of the New Deal included a radical increase in the regulation of the financial system, support for trade unions, a strengthening of labour market institutions, and changes in wealth and income distribution towards a more equal society. In all other major capitalist states, similar reforms took place and paved the way for a new phase of capitalism after the end of World War II in 1945 (Kindleberger 1973; Piketty 2014; Dodig and Herr 2015).

To date, the period after World War II until the 1970s has been the best period of capitalism in developed capitalist states, at least from the perspectives of the majority of the population. This so called “Golden Age of Capitalism” was characterised by high GDP growth rates, high productivity increases, low unemployment, a relatively equal income distribution, and a low level of economic uncertainty. It was a version of a highly regulated type of capitalism, especially with respect to financial and labour markets. The Bretton Woods system provided with its fixed, but adjustable, exchange rates and capital controls, a stable framework for the post-war expansion. Moreover, during this time, domestic financial systems were highly regulated either by a separation between commercial and investment banking – as in the United States – or by financial systems that did not rely heavily on investment banking and stock markets – as in Continental Europe. Real estate markets everywhere were highly regulated. Trade unions played a big role in the wage bargaining process and in the dominating stakeholder corporate governance system, even in the United States (see Galbraith 1967). Politically, the Golden Age – a product of the New Deal – presented a class compromise between capital and labour. After World War II, even the bourgeoisie was convinced that only a strictly regulated type of capitalism could survive. The strong working class has, of course, contributed to such a constellation.

A good example of this constellation after World War II is the establishment of the Social Market Economy in Germany. It combines free markets with social policies to cushion the instabilities and injustices of capitalism. It also has the aim to stabilise economic development

and defend competition in goods markets. Contrary to many beliefs, the Social Market Economy was not a project developed by socialist or social democratic researchers and politicians; it was developed in the conservative camp (see Müller-Armack 1947; Wünsche 1982).

The Golden Age of Capitalism came to an end in the 1970s during political crisis with strong left parties, partly radical unions, and a robust progressive student movement. In addition, economic turbulences destabilised the development. First, deregulation of the financial system took place. The Bretton Woods System broke down in 1973 and led to exchange rate instability; oil price shocks hit economies; high wage increases led to high inflation rates – part of the trade unions pushed for very high wage increases and misunderstood wage demands as a strategy towards socialism –; restrictive monetary policy to fight against high inflation and strong depreciations led to economic crises and increasing unemployment. This bundle of interwoven factors led to election victories of radical conservative politicians – especially Margret Thatcher in 1979 in the United Kingdom and Ronald Reagan in 1980 in the United States. In view of the developments in the 1970s, bourgeois elites terminated the class compromise. Last but not least, radical neoclassical and neoliberal economists had for a long time been preparing for a window of opportunity in history to realise neoliberal policies, which they believed to be best for capitalist development (Harvey 2005; Dullien et al. 2011).

The Conservative Revolution, which started in the United States and United Kingdom, found its key pillars in a deregulation of the domestic and international financial system, including in real estate and labour markets, aggressive policies against trade unions, and a change in corporate governance towards shareholder value.<sup>10</sup> An unstable finance driven type of capitalism developed, with lower GDP growth rates, higher unemployment rates, sharply increasing inequality of income and wealth distribution, a reduction in government social safety nets and redistribution policy, and an explosion of precarious jobs and uncertainty in the labour market. At the same time the economy became more than ever dominated by big multinational companies. Deregulation and revolutions in transportation and information technology allowed for a far reaching allocation of the production of goods in global value chains under the control of multinational lead firms. In general, the conservative revolution and the economic development over the last decades do not stand for the type of neoliberalism which prevents the economic and political power of big corporations. Governments do not

---

<sup>10</sup> Also mark-to-market accounting was introduced which allowed companies to evaluate their assets according to daily market prices. This increased cumulative processes and volatility similar to Basel II which allowed banks equity holding according to risk models.

care for sufficient competition in markets and do not fight against corporate rent seeking. A kind of corporate neoliberalism developed (Crouch 2011).

This new type of finance driven capitalism, with a relatively low level of regulation and weak stabilising institutions, alongside high income and wealth inequality, certainly will develop back to the type of capitalism that Marx and Engels analysed in their Manifesto. The type of capitalism which developed after the Golden Age is unstable and socially unjust. While the Great Recession does many things, it does not shed a good light on future development. Inequality in many countries may be too high to allow a prosperous economic and political development. Tendencies of a more multipolar world may increase the challenge of finding global stabilising mechanisms. The scenario in the Manifesto may become more realistic once again.

## **5. What can Vietnam learn?**

A country like Vietnam can learn from the Manifesto that unregulated markets lead to disastrous economic, social and political developments, which can endanger even the reproduction of the capital system itself. The liberal argument based on Adam Smith's invisible hand – that markets coordinate the selfish action of millions of people and lead to the welfare of nations – is a dream and dangerous when tried to be realised. Politicians should thus not listen to economists, including foreign advisors who preach the liberal dreams of radical versions of capitalist systems.

The neoclassical or mainstream approach recommends a market-radical type of capitalism. The vision of such a type of capitalism is written down in the so called Washington Consensus. Especially for developing countries, it is vital that they strive for a regulated version of capitalist development. In other publications (Herr and Ruoff 2018; Dullien et al. 2011) we have developed an alternative to the Washington Consensus approach.

*Low level of inequality:* A relatively low level of inequality leads to sufficient domestic demand, it increases productivity via a better reproduction of workers, and it adds to social and political coherence. To reduce policies that result in inequality, governments should include a reduction of wage dispersion and establish health insurance and pay-as-you go pension systems which cover all inhabitants (see Gallas et al. 2016).



*Sufficient public goods:* In the field, public goods, such as education, health care, communication, or transportation, reduce inequality and increase productivity. Natural monopolies in the field of public utilities, for example electricity supply, water supply, waste management or hospitals, should belong to the government.

*Regulated labour markets:* The core labour standards<sup>11</sup> of the International Labour Organisations should be fulfilled. Nominal wages should become a nominal anchor for price level increases. This is the case when the nominal wage level increases according to productivity development in the whole economy plus a low (target) inflation rate. The real wage level then increases in line with productivity. Minimum wage policy, strong trade unions, and employers' organisation, as well as coordinated wage bargaining, can help to achieve this. When the domestic inflation rate becomes high, the central bank has to fight inflation even if it increases unemployment. Of course, everything should be done in the wage bargaining process to achieve a development which does not require such a policy (see Herr 2009).

*Strictly regulated financial system:* In developing countries, bank based financial systems, and a subordinated role of share markets and debt securities is preferable. Real estate markets should also be controlled. State- and collectively-owned banks, as well as development banks, can play an important role in delivering long-term credits for investment for low interest rates. In developing countries, capital controls are an important element of financial market supervision and a stable development. Especially portfolio investment in the form of debt securities and short- and long-term credits should be highly regulated. In developing countries, nominal exchange rates become the second nominal anchor for the price level. For this reason, and also to defend the price competitiveness of the country, a regime of a managed exchange rates is needed.

*Never accept current account deficits – push for exports:* Current account deficits are dangerous because they usually are closely connected with foreign indebtedness and reduce domestic demand. Policies should be oriented towards export promotion and a balanced current account or small surpluses.

---

<sup>11</sup> The core labour standards are a) freedom of association and the effective recognition of the right to collective bargaining, b) elimination of all forms of forced and compulsory labour, c) effective abolition of child labour, and d) elimination of discrimination with respect to employment and occupation.

*Comprehensive tax system and fiscal discipline:* For providing public goods and limit government debt, sufficient public revenues have to be created by a comprehensive tax system. Included in the tax system should be a redistributive component with a progressive income tax and high consumption taxes for luxurious goods. Increasing public debt to GDP for consumption purposes should be avoided. Of course, this does not exclude anticyclical fiscal policy and indebtedness for public investment.

*Demand management:* In capitalist societies, the volume of aggregate demand, as well as the structure of aggregate demand, can lead to crisis, insufficient development, and unemployment. Consumption demand has to be stimulated via fair income distribution and social policy (see the details above). Investment demand should be guided by three elements: a government owned enterprise sector concentrated in the area of public utilities and key industries; a non-profit sector, for example, in the form of collectively owned companies; and private investment. Policies towards a balanced current account and anticyclical fiscal policy complete macroeconomic demand management.

*Comprehensive industrial policy:* As markets push developing countries to low-tech productions, or even prevent substantial industrialisation, government interventions are needed to push for upgrading in existing industries, but also to search for and protect new industries. Selected foreign direct investment can support such a development when local content is high and it is integrated in industrial policy (see also Herr et al, 2016).

*Ecological restructuring:* Ecological restructuring should not be left to developed countries in spite of the fact that they have been causing most of the damage and promoted the technologies and living styles which led to the present critical situation. A Green New Deal with high investment in ecologically critical sectors could be combined with employment policies.

*Prevent Dutch disease:* Natural resource rich countries are, among other things, in danger of having an exchange rate which destroys the competitiveness of industrial production. Moreover, the countries are exposed to the volatility of natural resource prices. They should extract and export natural resources very cautiously and to a limited extent. At least populous natural resource rich countries should prevent the natural resource sector from becoming the dominant sector in the economy.

## **6. Conclusion**

The Manifesto is very sceptical about the development of the capitalist system. Marx and Engels did not expect that it would last so long. From a historical perspective, the system is very young. And its “creative destruction” continues with further amazing technological developments *and* violence against humanity and nature. It is an open question whether such a system can survive centuries or even millennia as some historical modes of production did. The planned economies, at least in their forms established in the Soviet Union and other countries, failed and broke down. In the present historical period, a regulated type of capitalism seems to be the most suitable option. Whether a regulated type of capitalism transforms itself into a new mode of production, however, remains an open question.

## References

- Bagehot, W. (1873): *Lombard Street: A Description of the Money Market*, London: London: Henry S. King and Co.
- Crouch, C. (2011): *The Strange Non-Death of Neoliberalism*, Cambridge: Polity Press
- Detzer, D., Herr, H. (2015): Theories of Financial Crises as Cumulative Processes – An overview, in: E. Hein, D. Detzer, N. Dodig (eds.), *The Demise of Finance-dominated Capitalism*, Cheltenham: Edward Elgar.
- Dodig, N., Herr, H. (2015): Financial Crises Leading to Stagnation – Selected Historical Case Studies, in: E. Hein, D. Detzer, N. Dodig (eds.), *The Demise of Finance-dominated Capitalism*, Cheltenham: Edward Elgar.
- Dullien, S., Herr, H., Kellermann, C. (2011): *Decent Capitalism. A Blueprint for Reforming our Economies*, London: Pluto Press.
- Gallas, A., Herr, H., Hoffer, F., Scherrer, C. (eds.) (2016): *Combating Inequality. The Global North and South*: Routledge.
- Galbraith, J.K. (1967): *The New Industrial State*, Boston: Houghton Mifflin.
- Harvey, D. (2005): *A Brief History of Neoliberalism*, Oxford: Oxford University Press.
- Herr, H. (2017): A history of the crises of the European Monetary Union, in: H. Herr, J. Priewe, A. Watt (eds.), *Saving the Euro: Redesigning Euro Area Economic Governance: Social Europe*.
- Herr, H. (2014): An Analytical Framework for the Post-Keynesian Macroeconomic Paradigm. *Izmir Review of Social Sciences*, Vol. 1, 73-116.
- Herr, H. (2011): Money, Expectations, Physics and Financial Markets. Paradigmatic Alternatives in Economic Thinking, in: H. Ganssmann (ed.), *New Approaches to Monetary Theory. Interdisciplinary Perspectives*, London: Routledge.
- Herr, H. (2009): The Labour Market in a Keynesian Economic Regime: Theoretical Debate and Empirical Findings, *Cambridge Journal of Economics*, vol. 33, 949-965.
- Herr, H., Ruoff, B. (2018): Insufficient economic convergence in the world economy – What do economists tell to explain why too many countries do not catch-up?, *Agrarian South: Journal of Political economy*, forthcoming.
- Herr, H., Schweisshelm, E., Vu, T.-M. (2016): The integration of Vietnam in the global economy and its effects for Vietnamese economic development, *Global Labour University Working Paper*, No, 44.
- Keynes, J.M. (1936): *The General Theory of Employment, Interest and Money*. London: Macmillan.
- Kindeberger, C. (1973): *The World in Depression: 1929–1939*, Berkeley: University of California Press.
- Kindleberger, C., Aliber, R. (2005): *Manias, Panics, and Crashes. A History of Financial Crises; 5<sup>th</sup> ed.*, New York: Basic Books.

- Marx, K. (1867) [first English edition 1887]: *Capital, A Critique of Political Economy* Volume I, *The Process of Production of Capital*, Moscow: Progress Publishers.
- Marx, K., Engels, F. (1848) [English publication 2006]: *Communist Manifesto*, [http://www.slp.org/pdf/marx/comm\\_manifesto.pdf](http://www.slp.org/pdf/marx/comm_manifesto.pdf).
- Mazzucato, M. (2013): *The Entrepreneurial State: debunking public vs. private sector myths*, London: Anthem Press.
- Müller-Armack, A. (1947) [reprinted 1982]: *The Social Aspect of the Economic System*, in: H. Wünsche (ed.): *Standard Texts on the Social Market Economy – Two Centuries of Discussion*, Stuttgart: Gustav Fischer, 9 – 22.
- Piketty, T. (2014): *Capital in the Twenty-First Century*, Cambridge: Belknap Press of Harvard University.
- Polanyi, K. (1944): *The Great Transformation*, New York: Farrar & Rinehart.
- Schneider, M. (1984): *Streit um Arbeitszeit. Geschichte des Kampfes um Arbeitszeitverkürzung in Deutschland*, Frankfurt: Bund-Verlag.
- Schumpeter, J. (1911) [English 1994]: *The theory of economic development: an inquiry into profits, capital, credit, interest, and the business cycle*. New Jersey: New Brunswick.
- Schumpeter, J. (1942) [reprint 1994]: *Capitalism, Socialism and Democracy*, London: Routledge.
- Stiglitz, J. (2010): *Freefall: America, free markets, and the sinking of the world economy*. New York: W.W. Norton & Company.
- Wünsche, H. (ed.) (1982): *Standard Texts on the Social Market Economy – Two Centuries of Discussion*, Stuttgart: Gustav Fischer.

Imprint

Editors:

Sigrid Betzelt  
Martina Sproll  
Reingard Zimmer

Eckhard Hein  
Christina Teipen

Martina Metzger  
Achim Truger

Jennifer Pedussel Wu  
Markus Wissen

ISSN 1869-6406

Printed by  
HWR Berlin

Berlin February 2018