CHAPTER 11

Capturing the Economic Surplus

The land question

Is land economically important?
Is the rent of land a drain on economic progress?
Should land rent be taxed?

The analysis of land has a rather shadowy presence in modern economics. In agricultural economics and natural resource economics it cannot be ignored, of course; elsewhere it tends to be treated either as a factor of production—on a par with labour and capital—or as part of the backdrop to the real economic action of production, distribution, and exchange. This marginalisation of the analysis of land was not always the case, however. In classical political economy, the analysis of land was a central concern.

Why the change? To some extent it may be explained by the different material economic conditions. Economic 'modernisation', particularly over the last century, has caused proportionately fewer people to be directly engaged in farming. Meanwhile, modern technologies have made more and more industries 'footloose', not tied to particular geographical locations. All economic and social activities necessarily involve the use of land in some way, but the modern economy in general seems less place-bound. However, the neglect of the distinctive role that land plays in the economy also has an ideological dimension—diverting attention from the economic and social consequences of private land-ownership. Therein lies a significant bias. Its redress requires some reconsideration of what the leading classical political economists had to say about land. It also requires attention be given to the radical variation on the theme of land-ownership in the writings and teaching of Henry George.

THE SIGNIFICANCE OF LAND IN DIFFERENT ECONOMIC SYSTEMS

From an ecological perspective, it is particularly important that the use of land be carefully considered—after all, land is fundamentally different from labour and capital because its supply is inherently limited. It is part of our natural resource endowment. Even from a narrowly economic perspective, it is clear that the availability, use, and productivity of land (both in rural and urban contexts) has a major bearing on the capacity for economic growth. From a broader social perspective, land is also special. Some of us enjoy roaming over publicly accessible tracts of land,
while others enjoy exclusive use of small parcels of it. Managing the tension between these public and private perspectives is a key issue for public policy. So, the institutions that shape the use of land are of fundamental economic, environmental, and social significance.

There are enormous differences in the ways in which land is allocated and used. Consider, first, the role of land in traditional Aboriginal societies, like the Aboriginal peoples of Australia or the Native American peoples of North America. Land is integral to subsistence and community; indeed, it is usually not seen as something separate from life itself. People exist through being in, and of, nature. Land provides the sustenance that makes life possible. The people may be regarded as its custodians, but it makes little sense to think of them 'owning' the land, either individually or collectively. They no more own the land than it owns them. Land is simultaneously history, geography, and spirituality; it is not a marketable economic asset.

Under feudalism, land also has a crucial, but quite different, role. Command over the disposition of land is a defining feature of the economic and social order. A person's relationship to the land significantly defines his or her social standing. The privileged position of the ruling class depends on control of the large areas of land that they possess. They 'call the shots' because they control the key resource that enables them to capture the lion's share of the economic surplus. The mass of the people, on the other hand, are in a position of economic dependency and social subordination because their livelihood depends on their access to the land that they themselves do not own.

For the classical political economists, the emergence of capitalism from this feudal order needed to be understood. The transition involved a significant change in the distribution of economic power. It saw a switch from landowners being the dominant element in the ruling class to capitalists being the ascendant element—economically, if not socially and politically. The landowners still dominated Parliament, of course. Then, as now, the social and political dimensions of the changes in the composition of the ruling class lagged behind the economic changes.

So it was natural that, in order to understand the economic conditions of their age, the classical political economists should pay particular attention to questions about land—its ownership, how income is derived from it, and the size of that income relative to the incomes derived from labour and capital. Indeed, even before the age of classical political economy, the land question had been central to economic discourse. The French physiocrats had argued that land—a gift of nature—was the only real source of wealth because it enabled agriculture to generate a net product in excess of production costs.¹

**REN RENT AS A BRAKE ON ECONOMIC PROGRESS?**

Of the classical political economists, David Ricardo had perhaps the most well-developed analysis of the role of land in economic progress. Himself a landowner, Ricardo was nevertheless no apologist for the interests of the landowning class. On the contrary, he saw the capacity of landowners to obtain a major share in the economic surplus as an obstacle to economic development. According to Ricardo, the income that they derive in the form of rent comes from the incomes that would otherwise go to capitalists and workers. In so far as it comes from the profits made in particular, rent impedes the process of capital accumulation and thus limits economic growth. It is an argument that needs careful consideration. It is of continuing significance, no matter how the greater interpenetration of land and capital ownership in modern capitalism.

Rent has to be carefully defined in this context. We are used to thinking of rent as a payment for the use of land. We commonly talk of 'renting' a house or a flat (or, generally, any commodity for hire, such as a car or a floor-sanding machine). In that popular sense, we are talking of a payment for temporary access to, or use of, the property—a payment that boosts a flow of services over a specified period of time. It is important to emphasise that, in the current context, rent is being used in a more specific sense. It refers only to a payment for land: in other words, it is a **site rent**.

What we normally call the rent for a house can be seen as having two components: the site rent for the land and the payment for hiring the house that stands on the land. Only the first of these two components can properly be called rent for the purposes of the current analysis. Defining rent in this way immediately draws attention to its class character—its association with the wealth of power of landowners.

According to Ricardo, 'the interest of the landlord is always opposed to the interest of every other class in the community'.² Why is this so? The Ricardian theory is based on two key assumptions. The first is that land differs in its fertility—so all lands can be ranked from the most fertile to the least fertile. The second is that competition equals the profit rate among farmers who hire land from landowners. We can then visualise land generating the income flows depicted in box 11.1.

The revenue generated by the economic use of more land has to be shared between landowners, capitalists (the tenant farmers in this model), and workers (the farm employees). The general tendency is for profits to be squeezed because landowners capture a share of the economic surplus generated. Indeed, as more land is brought under cultivation (that is, previously submarginal land becomes marginal), the proportion of the total value of production captured by landowners increases. So, even if wages remain at subsistence levels, the profit share declines.

Therein lies a deeply troubling paradox. According to this analysis, profits are the source of capital accumulation, the driving force in the capitalist system, but they are increasingly hard to sustain as economic expansion occurs. The root problem is that growth is stifled by the diversion of the economic surplus into rent payments. 'Do away with the landlords' is an understandable response. As a member of parliament, surrounded by members who typically represented landowners' interests, Ricardo took a more reformist stance. He thought the problem could be significantly reduced by the removal of the impediments to trade that led to less fertile land being brought under cultivation. He argued forcefully that the repeal of the Corn Laws, which protected local agriculture from competition from imports, would counter the tendency for rents to rise at the expense of profits.

Whether more free trade is the appropriate antidote to the power and wealth of landowners remains a contentious point. Restrictions on agricultural trade are still commonly said to be justified by the need to protect the interests of rural landholders and regional communities whose economic prosperity depends on such protection.


Rent, wages, profit: A Ricardian view

The figure below depicts how the value of the produce from land is shared between landowners, capitalists, and workers. The vertical axis measures the monetary values of the land and its produce, while the horizontal axis measures the amount of land used (the number of hectares, for instance).

The line showing the value of the additional product (for example wheat) from each successive unit of land slopes down to the right as less fertile land is successively brought under cultivation. In other words, the marginal product of land declines as more is used.

The rent is the difference between the value of product generated by each unit of land and the value generated by the marginal unit, that is, the last piece of land brought under cultivation. This is the differential rent. It is the upper limit of what landowners can charge farmers for using their superior quality land (the land that is more fertile than the marginal land). If OA units of land are used, the total rent is the shaded triangular area XYZ.

How is the rest of the value (that is, the area OAYZ) shared among farmers and those who work for the farmers as employees? If, as the preceding chapter argued, employees' wages are kept at subsistence level (OW in the graph), then the total wage share is shown by the area OAYW, leaving VWZY as the profit share to go to the farmers as a return on their investment of capital and labor.

Now visualize the situation in which the economy has expanded and more land has been brought under cultivation. The share of rent in the total value produced increases. In the extreme, the profit share disappears (when OC land is used). This illustrates the general tendency for profits to be squeezed out between rents and wages. If wages are raised as more land is brought under cultivation, the squeeze is even tighter. This may occur when food becomes more expensive because inferior land has to be used and the subsistence wage is consequently increased. In that case, the line showing the wage rate would slope upward to the right, which would mean that profits would be eliminated even more quickly as additional units of land were cultivated. It would bode ill for the future of economic growth under capitalism.

The protection of agricultural interests has been one of the most controversial political-economic issues in the development of the European Community, and also in Japan. The Japanese government imposes restrictions on rice imports, seeking to maintain the viability of the local farming sector, whose importance is social and cultural as well as economic. Although the case for such policies is not normally couched in terms of safeguarding landowners' interests at the expense of capital and labor, that is the usual economic effect. It runs counter to the Ricardian argument for squeezing rents by breaking down the impediments to agricultural trade. The Ricardian view can be considered part of the general case, considered in the preceding chapter, for trade liberalization based on the principle of comparative advantage. Restrictions like the Corn Laws both boosted rents at the expense of profits and impeded the process of specialization, which free trade is held to encourage. On this reasoning, it is free trade that is the antidote to the power of landowners to capture the economic surplus as rent. It is a chain of reasoning thoroughly in keeping with the classical political economics' view of the extension of capitalist markets as a progressive force for economic change.

A GENERAL ASSAULT ON LAND RENT

The argument so far has been couched mainly in terms of agricultural land. However, similar principles apply if we consider the use of land in an urban context. Instead of thinking of the land as having a capacity to 'earn' differential rents according to its fertility, we can now visualize its capacity to 'earn' differential rents according to its accessibility (to be 'close' to a city's center of commercial activity). As a city grows, more land is brought into urban use (for housing, industrial purposes, water storage, waste disposal, and so forth). As in the agricultural model, that more extensive land use raises the capacity of existing urban land to earn even higher levels of rent. So, as towns grow, the landowners are the primary beneficiaries—of the expense of capitalists and workers. Some claim that this process is operating in modern cities, with dramatically adverse economic and social consequences. The ideas of Henry George, as well as David Ricardo, are pertinent to understanding these contemporary processes.

As George emphasized, land is essentially a gift of nature. The problem starts to arise when it becomes substantially privately owned. As more of nature's gift is used for income-generating purposes, a greater share of the society's total income goes to those who have acquired property rights in land. In the historical development of the United States, for example, the westward movement of the settlers, and their capture of the land from the indigenous peoples, vastly increased the material wealth of the settler society. With economic growth in general, the increased value of the land is captured for private rather than public purposes. Coupled with the unequal distribution of its ownership, this exacerbates socioeconomic inequalities. Speculation flourishes as land values change with the spatial pattern of development. That speculation then fuels further socioeconomic inequality, as well as diverting funds from productive purposes. Land may often be held idle because it is bought and sold for speculative gain. The general problems of economic inefficiency and social inequality both have their roots in these tendencies.
Henry George was the founder of a social movement that, in its time, rivelled Marxism as a major force for radical political economic change. His focus on the inefficiencies and inequities associated with the private ownership of land, and on the simple remedy of land taxation, inspired many social activists. The ideas he pioneered are still of significant contemporary relevance.

Unlike most of the other intellectual giants in the history of political economy, George had no academic credentials. As a young man in the United States, he had various jobs, eventually turning to journalism, running a struggling little newspaper in San Francisco. He visited New York in 1869 to set up a telegraphic news bureau for the paper (unsuccessfully, as it turned out, because of opposition from larger and more powerful press and telegraph monopolies). While in New York—then the epitome of the modern capitalist city—he was dismayed by the gross inequalities between rich and poor that he witnessed. He asked himself, why, in a country so blessed by nature, with more than enough resources for all, should there be such maldistribution? By all accounts, the answer—and the remedy—came to him in a blinding flash.

He began writing his analysis of how the appropriation of rents by landowners was at the root of all such economic and social problems, and how a single tax on land rent could resolve these problems. His work appeared in a series of pamphlets, and then in his major book Progress and Poverty, which was published in 1879. Progress and Poverty was translated into fifteen languages and sold millions of copies. George travelled internationally, preaching his distinctive gospel. In Australia, his public meetings enjoyed massive attendances. George's diagnosis of the injustices associated with the 'land question' had widespread appeal in a 'frontier' economy like Australia—comparable to the United States in this respect.

The strong social movement that Henry George started is no longer the force it was. Sadly, it seems more people today are concerned with claiming a stake in the 'land racket' than with the reform of public policy regarding land. As a consequence, our cities become more expensive to live in and more socially divided, and most of the economic surplus associated with land price inflation is appropriated for private rather than public use.

It is also important to note that, from a Georgist perspective, the appropriation of the economic surplus in the form of rent is at the expense of ordinary working people. As Henry George said, 'the increase in land values is always at the expense of labour'. In the Ricardian view, rent is at the expense of profits (since wages are destined to remain at a subsistence level anyway). The Georgist perspective has more widespread political appeal because most people, it seems, would benefit from redressing this source of social injustice.

One obvious solution is public ownership. The collective land resources could then be used according to whatever development plan the society establishes. However, Henry George did not consider this necessary, sharing, in this respect, the classical political economists' aversion to an extensive role for the state in the direct management of economic resources. He favoured a market-oriented approach, but with a uniform land tax. Other classical political economists, notably David Ricardo, favoured substantial land taxes, but George was unique in thinking that a general tax on the site rent of land would be sufficient to finance all the necessary public expenditures of government. A land tax is the best sort of tax, Georgians have consistently argued, because it creates an incentive to use all land for its most productive purpose in order to generate the revenue to pay the tax. By contrast, taxes on labour and capital create disincentives to productive effort. A single tax on land, replacing all personal income taxes, business taxes, inheritance taxes, and taxes on goods and services, is held to be more economically efficient.

Whether a single tax on site rents today could generate sufficient revenue to finance all government expenditures is debatable, given the growth in the array of such expenditures since George's time. But the case for land taxes remains strong. Local property taxation is widely used as a means of taxing land ownership and generating revenue for local governments. As a matter of political pragmatism, some balance between taxation of land, other assets, income, and expenditure seems inescapable. Should land tax play a bigger role in this policy mix? The argument that it should do so is historically grounded in classical political economy. It also addresses contemporary concerns about the diversion of the economic surplus into the hands of people who make no direct productive economic contribution.

CONCLUSION

It is over a century since Henry George noted that the contrast between affluence and poverty was most striking in 'the great cities where the ownership of a little patch of ground is a fortune'. That tendency has been multiplied many times over in the intervening period as cities have grown and land prices escalated. These land prices are a major element in creating divided cities, and spatial divisions generally. In conjunction with housing markets, land markets commonly lead to a striking spatial segmentation of cities into affluent suburbs and poorer areas, the latter sometimes forming ghettos where socioeconomic disadvantage is perpetuated in a vicious circle. As David Harvey, the leading urban geographer, has argued, the rich command space while the poor are trapped in it.

Real estate, and the intergenerational transmission of its ownership, is a major source of economic and social inequality. This is not a problem of transition between feudalism and capitalism, as it may have been perceived during the age of classical political economy. It is an enduring feature of a society in which income from property ownership commonly outstrips income from productive effort. So, the land question remains at the heart of practical political economy. However, as the ownership of land has become ever more intertwined with the ownership of capital, there is a need for an analysis of unearned incomes in general (from capital as well as land). The study of Marxist economics is inescapable in this context.
The problem with the perspective that the global market economy is ineffective is that different regions are not isolated from one another. They are interconnected within the framework of economic development. Interactions between them are fundamental to understanding the complexity of global economic systems. The perspective of emergent markets is that the interaction between global and regional markets is essential to understanding the economic dynamics of the world economy. This perspective emphasizes the role of regional markets in shaping global economic trends. It suggests that understanding the dynamics of regional markets is crucial to grasping the complex interplay between global and local economies. This perspective highlights the importance of considering the regional context when analyzing global economic phenomena. It emphasizes the role of regional markets in shaping global economic trends. It suggests that understanding the dynamics of regional markets is crucial to grasping the complex interplay between global and local economies. This perspective highlights the importance of considering the regional context when analyzing global economic phenomena.
THE HISTORICAL CONTEXT

From the beginning of time, the search for power and control has been a driving force in human history. This search has led to the rise and fall of empires, the rise of new technologies, and the shaping of our world. The historical context is an important factor in understanding the current state of the economy.

The economic system is a complex web of interdependent factors that interact to influence the overall economy. These factors include government policies, international trade, and the global economy. The historical context helps us to understand the current economic system and how it has evolved over time.

Economic systems have changed throughout history, from feudal systems to modern capitalism. Each system has its own set of rules and regulations that govern how goods and services are produced and exchanged. Understanding the historical context of an economic system is crucial to understanding its current state.

In conclusion, the historical context is an important factor in understanding the economy. By examining the past, we can gain insight into the current economic system and predict its future behavior. This understanding can help us to make better decisions about our personal finances and the economy as a whole.
The views of the classical political economists about the generally progressive character of the new economic order were weakened by the rapid growth of capitalism. Capitalism in practice seemed to be a dynamic but rapacious system based on the alienation and exploitation of labour. It produced glaring economic inequalities and led to the commodification of social life.

What were the major changes then taking place? Most obvious was the growth of the factory system, which was largely replacing the putting-out system. Instead of workers making products in their own homes and selling them to merchants, they now increasingly went to work at the premises of their employer. They worked in factories, mines, shops, and warehouses for wage payments—usually paid by the hour. Wage labour was not new, of course, but it had now become the norm. It was an arrangement that suited capitalist employers. It gave them more direct control over the workers' time, and more direct control over the quality of the products, than they had under the putting-out system. However, it also raised complex problems, such as the management of larger groups of workers. It created an identifiable industrial working class.

Many businesses continued to be small-scale operations, owned and managed by individuals and families. However, joint stock companies (businesses that were owned by their shareholders) became increasingly common and led to the creation of a class of 'absentee owners' able to derive 'unearned income' (for they had not worked or directly participated in management) from business enterprises. The dispossession of this income became crucial for the growth of the economy—whether it was to be ploughed back into investment to expand productive capacity or used for luxury consumption by the rich, for example. So the accumulation of wealth created some significant tensions for capitalist development.

There is continuing debate about whether the material conditions of ordinary working people improved during the period of the industrial revolution. Living in conditions of urban poverty was probably a step up for some people, compared with the debilitating rural poverty they had previously experienced. But the general conditions of the labouring masses in the towns were deplorable: child labour was common, as were working days of anything between fourteen and eighteen hours; terrible industrial accidents were frequent; and living conditions were horrendous. There was chronic overcrowding in the houses of the workers, poor sanitation, and widespread incidence of disease. Life was short and mean.

Capitalism did not seem to be delivering the ordered and progressive outcomes its apologists had promised. Here was a situation crying out for a thorough critique. Of crises there was no shortage. The disruptive social consequences of the rapid economic change were the target of both conservatives and radicals. So the latter sought to design utopian alternatives. The Frenchman Henri de Saint-Simon argued that government should actively intervene in production, distribution, and commerce in order to promote the welfare of the masses; the Englishman William Godwin, critical of both capitalism and government, emphasized education and reason as the means of ushering in a socialist alternative; the Welsh humanitarian Robert Owen blended visionary utopian thinking with practical measures to improve the living conditions of the workers in his factory in Scotland; and the Frenchman Charles Fourier promoted the idea of cooperatives as an alternative to the wastes of capitalism.

Friedrich Engels (1820–95)

Engels is mainly remembered for his working partnership with Karl Marx. It was a remarkable partnership not least because Engels was a capitalist. A German, he managed his family’s substantial textile business in Manchester, England.

Three aspects of his partnership with Marx are noteworthy. First, as a relatively wealthy capitalist, Engels was able to give financial assistance to the impoverished Marx. Therein lies a delicious irony: The profits from the Engels family business, extracted through the exploitation of labour, partly financed the production of books and pamphlets exposing the system of exploitation and the organizing of its overthrow. Engels shared Marx’s revolutionary socialist views, and both knew that the system would not be challenged by individual employers turning their back on the process of capitalist commodity production.

Second, Engels was a creative thinker and a powerful writer in his own right. He wrote perceptively about the terrible living conditions of the working class in Manchester, which was the epitome of a rapidly industrializing capitalist city. He also wrote about the ‘housing question’, exploring what was at the root of the appalling contemporary housing problems. Many regard him as a clearer expositor than the brilliant, but sometimes obscure and disorganised, Marx. The Manifesto of the Communist Party is the best known and most polemic of their joint works, but many of their other works also benefited enormously from Engels’s clarity of expression.

Third, Engels outlived Marx by twelve years. During that time he assembled many of Marx’s unfinished notes and manuscripts and put them into a form suitable for publication. Only the first volume of Capital had been published before Marx’s death. Engels arranged for the publication of the other two volumes and thereby contributed mightily to the foundation of the Marxist tradition of radical scholarship.
THE SCOPE OF MARXISM

The following nine themes illustrate the broad range of concerns within Marxist political economy.

- The study of social classes: The emphasis is on people, how the economy structures their interests, and how conflicting interests are expressed. The tendency for other currents of economic analysis to focus on things, rather than people, is derided as 'commodity fetishism'.
- The analysis of exploitation: A non-symmetric relationship between classes under capitalism is posited. Because capital hires labour, and not vice versa, there is the possibility—indeed the inevitability—of exploitation. Marxist analysis treats this as a systemic feature, dependent not the capricious inclinations of employers, but rather on the structural imperatives of the capitalist economy.
- The growth of monopoly power: Competitive markets are sometimes held to be the essence of capitalism, but Marxists emphasize the tendency for them to be supplanted by monopolistic enterprises. This further accentuates the disparities of economic power—the concentration and centralization of capital proceeds space as 'the big fish eat the little fish'.
- The expansionary nature of capitalism: Marxist analysis focuses on the reproduction and growth of the economy, emphasizing the dynamism of the capital accumulation process. This directs attention to the process of imperialism and, in modern capitalism, to the role of transnational corporations in driving the globalisation of capital.
- The analysis of uneven development: Capitalism has always been characterised by great variability—spatially and temporally. Its uneven development over space is manifest in the contrast between rapidly expanding cities and economically stagnate, or declining, regions. Its uneven development over time is manifest in alternating periods of boom and slump. These, too, are focal points of Marxist analysis.
- The commodification of social life: Going beyond the purely economic, it is important to understand the systemic forces shaping and reshaping our social activities. According to Marxists, the expansionary character of capitalist trends, little by little, to transform social pursuits into marketable commodities. Sport, popular music, and education are pertinent contemporary examples.
- The problem of alienation: Here, too, is a tendency that Marxists seek embedded in the economic structures of capitalism. It involves workers having no control over their own labour and the products of their labour. However, alienation is not limited to the workplace; according to contemporary political economists, it may also occur in other forms—economic, social, political, and environmental.
- The role of the state: As stressed in chapter 6, capitalism is not, in practice, a purely market economy. What role does the state play, and how its activities are related to competing class interests, warrants careful consideration. In general, Marxists take the view that the state serves capitalist class interests—although there are many variations on that theme.
- Understanding social change: The focus on the study of change emphasizes the processes of economic and social transformation, sometimes evolutionary and sometimes revolutionary in nature.

THE METHOD OF MARXISM

How are these aspects of capitalism to be analysed? Studying methodology in the abstract is notoriously unpalatable, but some consideration of it helps to reveal what is distinctive about Marxism in comparison to other theories. In general, what you see depends on how you look. Marx looked at capitalism from a perspective that was simultaneously historical, materialist, and dialectical.

To say that the method of Marxism is historical means that the principal focus is on historical processes, on change over time. The obvious point of contrast is with the focus in orthodox economic theory on equilibrium conditions at a particular point in time, as we will see in Part V of this book. The Marxist focus on history follows from the concern to study the evolution of economic systems.

To say that the method of Marxism is materialist requires a rather fuller explanation. Materialist in this sense needs to be distinguished from its more common usage of referring to a state of being primarily concerned, even obsessed, with the acquisition of wealth and possessions. In the philosophical context, materialist is the opposite of idealist. It denotes a primary focus on material conditions, such as the prevailing economic structure, as the key factor shaping society. The German philosopher Hegel, whose ideas strongly influenced Marx in his youth, had propounded an idealist philosophy that saw the totality of natural, historical and spiritual aspects of the world represented as a process of constant transformation. Marx is said to have 'stood on Hegel's head' by emphasizing the primary importance of material conditions rather than ideas. In his own words, 'it is not the consciousness of men that determines their existence, on the contrary, their social existence determines their consciousness.' That material and ideological conditions interact is one of the main themes throughout political economy. The distinctive feature of the materialist position is that the material conditions are regarded as the leading factor.

Putting the historical and materialist aspects of Marxist methodology together produces historical materialism—the view that material factors, especially economic conditions, drive social change. This is what is sometimes known as the materialist conception of history. When Marx hit on this concept he knew he was on to something big—really big. The claim is that the broad sweep of history is not a series of more or less random or independent events, but rather a process that has a structure shaped by the economic conditions and thus, in principle at least, is predictable. It is one of the most controversial claims in the whole of social science.

The third element in the Marxist method—integrated with the historical materialist perspective—is dialectics. This also shows the influence of Hegel. To say that the method of Marxism is dialectical means that the focus is on the conflicts and contradictions internal to the economic system that propel change. The model of thesis, antithesis and synthesis helps us understand dialectical processes. It helps to show how change arises out of conflict. Take the simple example of a discussion—perhaps in a university tutorial—about something like 'the causes of unemployment'. One person may begin by setting up a 'thesis', for example: 'unemployment exists because some lazy people simply don't want to work'. A second person then professes an opposite view: that unemployment results from the excess of potential...
The second view is the 'antithesis' of the first. Discussion then ensues, which may (if the tutorial participants are sufficiently open-minded) result in the development of a 'synthesis'. For example, it may be agreed that a deficiency of demand for labour is the root problem, but that, after a period of involuntary unemployment, some unemployed people may begin to rationalise their own situation by saying that they do not want to work, anyway. The synthesis embodies elements of thesis and antithesis, but transcends both. It moves the issue on. It constitutes progress.

This example emphasises the interaction of ideas. In a materialist context, more characteristic of Marxist analysis, the obvious example of a dialectical process is class struggle. As Marx and Engels wrote at the very beginning of the Manifesto of the Communist Party, 'the history of all hitherto existing society is the history of class struggles'. This puts the focus on the conflict of interests—for example conflict over the organisation of work and its remuneration. It emphasises that it is the contradictory elements within an economic system that propel change. It emphasises the progressive character of class struggle. It has given participants countless anti-capitalist political activities and liberation movements the dignity of representing a historical imperatives.

The activist element brings in the final element of the Marxist method—praxis. Marxism claims to be not merely a method for the analysis of capitalism; it claims to be simultaneously a tool for changing it and eventually replacing it with socialism. This integration of theory and political practice differentiates Marxism from more detached scholarly activities. Scholarship is important for Marxism—Marx himself was a scholar, studying the work of the classical political economists and developing detailed critiques. However, praxis requires that scholarship be blended with activism.

There are some interesting tensions in all this. If material conditions, rather than ideas, propel economic, social, and political change, why bother with the construction of a theory about capitalism, or anything else for that matter? Is not theorising inherently idealist? And, if the structural conflicts and contradictions within capitalism are destined to usher in socialism, why bother to organise a revolutionary movement? Why not just await the inevitable? These seem to be paradoxical aspects of historical and dialectical materialism, considered in the context of Marxist politics. The notion of praxis provides the necessary reconciliation. By emphasising the importance of material interests and ideas—the unity of action and theory—it indicates the holistic character of the Marxist method. As the inscription on Marx's tombstone reads, 'the philosophers have only interpreted the world in various ways: the point however is to change it'.

**CONCLUSION**

Marxist economics has provided the basis for a comprehensive critique of capitalism. In his own time, Marx addressed the problems of a rapidly industrialising society in which exploitation and class conflict were increasingly blatant. The scope of the analysis he and Engels developed was very broad—this respect similar to classical political economy, although quite different in its political implications. The method of analysis emphasised the study of contradictory elements in the processes of historical change. That method is married in Marxist analysis to the use of particular analytical concepts, which are developed and discussed in the next few chapters. Marxist political economy is highly controversial. Its claim to provide an analysis of the 'laws of motion' shaping capitalist development has strong echoes of classical economic thought. Its emphasis on the conflictual character of capitalism and capitalist politics gives it a distinctive radical character. For more than a century it has been a rallying point for anti-capitalist sentiments. In studying Marxism, it is important to keep an open mind about the extent to which the analysis needs to be developed, modified, or rejected in the light of changes to capitalism since the time Marx wrote. Here is an invitation to controversy: to the study of one of the most influential thinkers of the last two centuries and to the assessment of the relevance of his ideas today.