Marx and Engels had brought very different qualities to their joint enterprise. While Marx was deep, thorough and rigorous, Engels was full of brilliant flashes of insight and originality. Not only did his insights, notably in *The Condition of the Working Class in England*, get Marx started on his profound journey into unravelling the political economy of capitalism, but the origins of at least two of the most consequential ideas in Marx’s work can be traced to Engels’ *opus*. One is the “reserve army of labour” which some consider to be the most important concept in *Capital*; and the other is the idea of “labour” becoming a commodity owing to the bourgeoisie’s gaining “a monopoly of all means of existence in the broadest sense of the word” (1845) in (2010, p. 73), though the distinction between “labour-power” and “labour” had eluded Engels at that time⁴.

Engels’ flashes of insight would find expression later in his life through works such as *The Peasant War in Germany*,

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⁴ The idea of “labour” becoming a commodity had already appeared in Adam Smith but the reason Smith had adduced for it, namely the advantages of division of labour, was altogether different from what Engels in 1845 and Marx later, provided, which was the acquisition of monopoly control over the means of production by the bourgeoisie.
The Origin of the Family, Private Property and the State, and The Part Played by Labour in the Transition from Ape to Man. I shall be concerned in this essay however with Engels’ political economy; and one cannot but feel sad that he had no time to develop his own ideas on political economy, which were by no means identical with Marx’s and which displayed remarkable originality, because of his pre-occupation with preparing Marx’s Volumes II and III of Capital for publication. Not that the latter was a task of lesser importance; but one only wishes that Engels could have had a lot more time than he had. Among his ideas which remain unexplored are those on the market question which I shall discuss below.

I

Three outstanding ideas run through his writings on the market question. The most basic one among these is that a capitalist economy cannot do without access to an external market, i.e. a market outside of this economy proper. In Engels’ writings one can locate two reasons for it: first, capitalism being a system where there is no conscious macro-level planning of the economy, different branches experience increases in their production capacity at different times, and such enormous bursts of expansion of production in particular branches cannot possibly be absorbed within this system itself; such instances of expansion necessarily have to find their market outside of the system itself (this is often referred to in the Marxist literature as the problem of “disproportionality”) ; secondly, even if all the branches of production within this economy simultaneously experienced
an increase in their production capacity, the need for an external market would still necessarily arise because the existence of the reserve army of labour would keep wages down, and hence also the demand arising from the side of the working class (this is often referred to in the Marxist literature as the problem of generalized “over-production”).

It followed that a capitalist economy necessarily depended on an external market for both these reasons. In fact Engels seems to have taken this feature to be almost a definition of capitalism, viz. its being a system that cannot possibly remain confined to the local market alone but had to go all over the world trying to sell its goods. Put differently, he seems to have almost taken it for granted that the counterpart of the massive development of the productive forces that capitalism brings about is a quest for markets beyond the local or the domestic market. And the intense contradiction that this gave rise to was expressed by Engels as follows:

“But the manufacturing monopoly of England is the pivot of the present social system of England. Even while that monopoly lasted, the markets could not keep pace with the increasing productivity of English manufacturers; the decennial crises were the consequence. And new markets are getting scarcer everyday….But what is to be the consequence?...Here is the vulnerable place, the heel of Achilles for capitalistic production. Its very basis is the necessity of constant expansion and this constant expansion now becomes impossible. It now ends in a deadlock. Every
year England is brought nearer face to face with the question: either the country must go to pieces or capitalist production must. Which is it to be?” (Engels 1885) in (2010, pp.14-5)

This perception of capitalism as being constrained by the availability of external markets is in stark contrast to the one generally attributed to Marx on the basis of his two-department schemes in Volume II of *Capital*, where the two departments, one producing the means of production and the other producing the means of consumption, are shown to provide markets to one another within a closed and isolated capitalist economy.

Marx’s motivation for undertaking the analysis of capitalism in terms of his two department schemes is not clear. In a letter to Engels after working out his reproduction schemes he wrote: “I have got my *Tableau Economique*”. The *Tableau Economique*, it may be recalled, was the picture of circulation of commodities in an economy given by Dr. Francois Quesnay who was the leader of the Physiocrats in France.

The two-department schemes of Marx, like the *Tableau Economique* of Quesnay, were a brilliant scientific advance, encapsulating the millions of transactions that occur daily in a capitalist economy into a simple macroeconomic pattern; and having developed the schemes, Marx might have drawn the conclusion that the equilibrium conditions required to prevent crises in a capitalist economy were so stringent that they could not possibly be fulfilled in real life. In other words, Marx’s reproduction schemes might have been designed to show how
difficult it was to achieve equilibrium if expanded reproduction occurred exclusively within a self-contained capitalist economy. And given Marx’s rejection of Say’s Law, which David Ricardo believed in, and his acceptance of the phenomenon of generalized overproduction, it would stand to reason that Marx had something of this sort in his mind, i.e. the sheer difficulty that a capitalist system would face if it was confined exclusively to its domestic market.

The fact that Engels, who prepared Volume II for publication where the reproduction schemes appear and who must have pondered deeply over these schemes, himself believed till his dying day that capitalism necessarily required external markets, should have strengthened this interpretation of the schemes, as suggesting that the equilibrium conditions thrown up by the schemes are impossible to fulfil in real life.

But the standard interpretation that has been given to Marx’s reproduction schemes is quite different, namely that they depict a picture that holds on average in real life through crises, and the crises are seen essentially as cyclical crises. This is certainly the interpretation that Nikolai Bukharin gave to these schemes in his critique of Rosa Luxemburg’s theory of accumulation. Rosa Luxemburg, it may be recalled, had seen capital accumulation as necessarily entailing a process of exchange between the capitalist and the pre-capitalist sectors rather than between the two departments of a capitalist economy; Bukharin’s criticism was that the pre-capitalist sector was not logically necessary for an explanation of accumulation, as Luxemburg had argued. Accumulation could
occur, as Marx according to him had pointed out, through an exchange between the two departments, though such exchange would be accompanied by crises.

To be sure, the proof given by Rosa Luxemburg for her proposition that a capitalist economy necessarily had to look for external markets was inadequate. But Bukharin’s conclusion from this that the proposition itself was erroneous, was symptomatic of the general understanding that prevailed among Marxists. This held that through the cyclical crises, the picture of expanded reproduction drawn by Marx in his schemes, was a more or less accurate description of reality. The fact that Engels himself had rejected this understanding seems to have been missed by many Marxists, perhaps because his position on this question is outlined not in any single major work but in a series of communications.

II

The second major idea that Engels held all his life on the market question is the following: as capitalism acquires an external market for itself, it also destroys this market through this very process of acquiring it. It does not of course destroy this market immediately, or fully, for then there would be no net acquisition of an external market at all; but the point is that as capitalism creates a market for itself outside of itself, it becomes simultaneously engaged in a process of destruction of this market *ipso facto*, i.e. by the very act of this creation. Engels expressed the matter thus:
“For it is one of the necessary corollaries of *grande industrie* that it *destroys* its own home market by the very process by which it creates it. It creates it by destroying the basis of the domestic industry of the peasantry. But without domestic industry the peasantry cannot live. They are ruined *as peasants*; their purchasing power is reduced to a minimum; and until they, as *proletarians*, have settled down into new conditions of existence, they will furnish a very poor market for the newly-arisen factories.” (Letter to N.F.Danielson, September 22, 1892).

The example given by Engels here was of a peasant economy where the peasant household simultaneously carried on domestic industry, such as weaving, within the household itself in order to become viable. The pre-capitalist economy was thus characterized by a unity of agriculture and manufacturing. Capitalist industry encroaches upon this pre-capitalist economy by snatching away its market for its own products. But as it does this, the economy of the peasants becomes unviable, and the market that it had acquired gets lost, at least quite substantially, because of this unviability.

One can for instance imagine different peasant households engaged in different domestic manufacturing activities, and producing a variety of industrial goods which they exchange among themselves. Now, if capitalist products, being cheaper, supplant some of these pre-capitalist goods, with some peasant households, to start with, buying capitalist products and dropping out of the process of mutual exchange in which they had been engaged earlier, then those whose
products are supplanted will experience a loss of income; the same would happen to other households too, so that all peasant producers would experience a loss of income, and hence there would be a destruction of the capitalist market that had been created by supplanting petty production.

Marx had talked of the unity of agriculture and industry as being a characteristic of the Asiatic Mode of Production. The separation of agriculture and industry is brought about by the encroachment of capitalism. But this very separation through the supplanting of pre-capitalist industrial production, entails, simultaneously however, a loss of market for capitalism itself through the mass impoverishment of the petty producers.

This picture of a loss of market through the very process of creation of the market, which Engels had drawn in this letter to Danielson, the well-known Narodnik economist, has a more general validity: it is valid even when agriculture and industry are not carried out within the same household. This is evident from the experience of colonized third world economies like India where there was a distinct class of artisans, separate from the peasants, producing manufactured goods for the consumption of the peasantry and also for the nobility. The supplanting of such production by cheaper machine-made goods imported freely, without any tariff protection, from the metropolis, did not immediately impoverish the peasantry as in Engels’ example (though of course the enormous increase in tax revenue by the colonial government, which was simply shipped out of the country...
without any *quid pro quo* in the form of goods required by the metropolis, did; but that is a separate matter). But as the displaced artisans, with no other occupation left to them, tried to move into agriculture, causing an immense increase in the pressure of population on land, land rents increased and agricultural wages declined, resulting in a loss of income of the agriculture-dependent population over time.

This for instance is what happened in India in the latter half of the nineteenth century and the early years of the twentieth (Chandra 1968), and is the genesis of modern mass poverty. A similar phenomenon also occurred in other colonies of conquest\(^2\) and in semi-colonies like China. Engels, with his brilliant insight, was, as usual, sensitive to this phenomenon. We shall come back to this point later.

III

The third major theme that Engels developed on the market question related to the entry of newcomers into the ranks of capitalist nations. When Britain had a monopoly position as the pioneer country of the industrial revolution, a vast segment of the world market was open to it. But as other countries began to develop their own industrial capitalisms, and began looking for external markets as a consequence, they began encroaching upon the markets that Britain had exclusive control over till then. As Britain had supplanted

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\(^2\) I use the term “colonies of conquest” to refer to tropical and semi-tropical countries like India, Indonesia and the African colonies, as distinct from “colonies of settlement” which lie in the temperate regions, and which include countries like the United States, Canada, Australia and New Zealand. The term “colonies” is sometimes used simply to refer to the former.
local producers in these far-flung economies, the newly industrializing capitalist nations now began to supplant Britain in the world market, which brought in a protracted crisis in the British economy. This had the effect of giving a fillip, according to Engels, to the struggle of the working class in Britain for socialism.

Engels had already linked the quietude of the British working class to the monopoly position of Britain in the world economy in his famous letter to Karl Kautsky, and also in Engels (1985) (which reappears in 2010). His letter to Kautsky, it may be recalled, had formed the basis on which Lenin had developed his idea of the “labour aristocracy”. But as this monopoly position began to collapse, so did the quietude of the British working class. It is worth quoting Engels here (1985 reprinted in 2010, 15):

“The truth is this: during the period of England’s industrial monopoly, the English working class have, to a certain extent, shared in the benefits of this monopoly. These benefits were very unequally parcelled out amongst them; the privileged minority pocketed most, but the great mass had, at least, a temporary share now and then. And that is the reason why, since the dying out of Owenism, there has been no socialism in England. With the breakdown of that monopoly the English working class will lose that privileged position; it will find itself generally- the privileged and the leading minority not excepted-on a level with its fellow workers abroad. And that is the reason why there will be socialism again in England.”
Two points about Engels’ analysis of this phenomenon deserve attention. The first is the relationship he draws between developments in the economic realm and the rhythm of the revolution. The very idea of his seeing the revolution as being conditioned by economic phenomena, rather than other developments under capitalism such as wars, is itself rather significant.

In addition, Engels emphasizes a link between Britain’s loss of monopoly and a revival of socialism in Britain. The question is: how does this link operate? The typical answer one may be tempted to give immediately is that the loss of monopoly entails a loss of monopoly super-profits out of which a section of the workers (Lenin’s “labour aristocracy”) was being bribed earlier. But Engels has a more subtle link in mind, which is that Britain’s monopoly was associated with a prolonged economic boom. It is in other words the level of activity rather than monopoly profits which he emphasizes (though of course the two are not mutually exclusive).

He suggests that periods of pronounced economic boom, such as what Britain had enjoyed during the period of its monopoly, are not very conducive to revolutionary struggles while periods of economic slowdown and economic stagnation, such as what the end of that monopoly entailed, are. The unemployed according to him, whose ranks get swollen in periods of stagnation and crisis, may in their anger and frustration, be more willing to revolt against the system. (Preface to English Edition of Capital Vol.I).
This perception itself is rather unusual, since many see large-scale unemployment in a society as weakening not only the bargaining strength of the working class but also its political striking power; in fact unemployment is often seen as being conducive to the growth of the Right and of the fascist forces. Engels’ remarks suggesting otherwise are quite significant in this context.

The second point about Engels’ analysis is what it suggests regarding the future course of capitalism. As capitalism spreads among the nations (at least those to which substantial European immigration had taken place), there is likely to be an increase in the intensity of struggle over markets. Since capitalism requires external markets, the growth of markets cannot possibly keep pace with the growth of productive forces. Engels expresses this point as follows: “While the productive power increases in a geometric, the extension of markets proceeds at best in an arithmetic, ratio” (Preface, English Edition, Capital I). This contradiction must therefore lead to a growing tendency towards stagnation and crisis of the system, the exact incidence of this crisis upon the different nations depending upon their competitive strength and degree of dependence upon external markets.

This prognostication about the system getting more and more embroiled in crises as it develops, if taken as an ex ante proposition, is both powerful and plausible. It is plausible once we break out of the notion of the two department schemes of Marx depicting an actual picture of accumulation and see the necessity of external markets for capitalism. It is
not surprising that Rosa Luxemburg had come to a somewhat similar conclusion with her theory of “collapse” which she had used against Eduard Bernstein’s proposal to change the agenda of the proletariat from a struggle for revolution to one for reform.

In fact it is a more powerful and plausible ex ante hypothesis around which one can analyse the long-term dynamics of capitalism than the one which Marx actually used in Capital Volume III, which is in terms of the falling tendency of the rate of profit because of a rise in the organic composition of capital. In fact there is no reason to expect the organic composition of capital to rise at all, even in an ex ante sense; a rise in the organic composition of capital is no more plausible than a fall; and of course a constancy (which is what “mainstream” economics is founded upon) is even less plausible.

Marx was perhaps influenced by the theoretical legacy of Classical Political Economy in suggesting his falling tendency of the rate of profit, since both Adam Smith and David Ricardo had propounded similar theoretical prognostications, though on differing grounds. Engels’ being relatively free of this theoretical legacy enabled him to suggest an alternative reason for capitalism’s getting engulfed in crisis as it developed, which was better founded than Marx’s proposition.

To be sure, one has to take Engels’ remark not as a prediction but as suggestive of an ex ante tendency. But seen this way, it becomes a powerful tool of analysis, which,
strangely enough, has not been utilized by Marxist writers even at the present juncture, despite the fact that world capitalism has of late been embroiled in a protracted crisis where Engels’ analysis appears quite apposite.

To say that capitalism gets embroiled in crisis and stagnation as it develops is not to advance a theory of automatic breakdown of the system. The point is that, as Engels had noted, the revolutionary overthrow of the system, which must be an act of conscious praxis, comes on to the agenda when the system gets embroiled in crisis and stagnation.

IV

The term “deindustrialization” acquired currency through the work of the Indian nationalist writers who had provided a comprehensive critique of colonial rule. But Engels as we have seen had emphasized such a process of “de-industrialization” as anyway accompanying capitalist development. If an external market is necessary for capitalism, then supplanting pre-capitalist producers becomes a feature of such development; and this is what causes de-industrialization in the pre-capitalist economy

But deindustrialization, defined as a reduction in the number of persons employed in industry, can occur not only within the pre-capitalist economy, but even if we take the capitalist and pre-capitalist economies together. If the number of persons displaced by the entry of capitalist

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3 For a discussion of deindustrialization in colonial times see Bagchi (1976).
products exceeds the number of persons employed in producing the capitalist sector’s product that displaces them, which is obviously likely, then we have deindustrialization, *ceteris paribus*, in this sense of a reduction in the number of persons employed in industry, taking both the sectors together.

This of course may happen within a country, with the capitalist sector encroaching upon the pre-capitalist sector of the same country; or it may happen across countries as in the colonial situation where the pre-capitalist sector’s workers remain a pauperized mass within the colonies because of the encroachment by metropolitan capitalism, and yet, even if they could migrate to the metropolis there would be no jobs for them because the total employment taking both sectors together has *ceteris paribus* shrunk.

Such de-industrialization has to be distinguished from the destruction of the market referred to above. The creation of the market for capitalist goods creates deindustrialization, whether or not there is any destruction of the market so created. While Engels himself had talked of the destruction of the market created by capitalism because the peasant who also carried out manufacturing, suffered an income loss and hence cut down on demand when this supplementary source of income became unavailable owing to competition from the capitalist sector’s goods, deindustrialization would still have occurred if the peasants’ demand for the good in question had not shrunk.
We had mentioned earlier that the destruction of the market is a phenomenon observable even in situations where the peasants themselves are not manufacturers but where there is a separate and distinct class of artisans. These artisans are the ones who get displaced; and that is what we call “de-industrialization”. But in addition, since the displaced artisans crowd onto the available land they raise rents and lower wages, leading to a reduction in the incomes of the peasants and agricultural labourers and increasing the share of the landlords. If a dollar transferred from the peasants and labourers to the landlords entails a lower demand for capitalist manufactured goods, since the propensity to consume such goods is higher among the peasants and labourers than among the landlords, then we have the phenomenon of destruction of markets. But the destruction of markets has nothing to do with the phenomenon of de-industrialization as such.

De-industrialization in a country having both capitalist and pre-capitalist sectors, with the encroachment upon the latter being carried out by the former, was discussed by Engels in the same letter to Danielson that we quoted earlier. He was discussing the prospects of capitalist development in Russia, an issue that had exercised the Narodniks, who had wanted a direct transition to socialism from the old Russian commune (or mir) by avoiding capitalist development altogether and had entered into correspondence with Marx and Engels on the matter. It is in this context that Engels had written this important letter to Danielson where he had said:
“Your calculation that the sum of the textile products of grande industrie and of domestic industry does not increase, but remains the same and even diminishes, is not only quite correct, but would not be correct if it came to another result. So long as Russian manufacture is confined to the home market, its product can only cover home consumption. And that can only slowly increase, and, as it seems to me, ought even to decrease under present Russian conditions.”

Suppose we ignore the possibility of decrease of home consumption (which is linked to the question of the destruction of market mentioned earlier), and simply confine ourselves to a given home market (which has no reason to increase by the processes we are considering). If the total consumption remains the same but more of it is catered to by capitalist products than earlier, at the expense of pre-capitalist products, then total employment clearly would have ceteris paribus diminished, since employment per unit output must be lower for the capitalist product than for the pre-capitalist product. Thus, Engels is clearly visualizing deindustrialization in the sense we have defined it within a country (in the present context Russia) as a consequence of capitalist development.

Of course if the encroachment upon the pre-capitalist sector is done not by the capitalist sector located within that country itself but within another country, then matters are much worse for the recipient country of capitalist products. Engels considers this in the same letter:
“And as far as this side of the question: the destruction of home industry and the branches of agriculture subservient to it – as far as this is concerned, the real question for you seems to me this: that the Russians had to decide whether their own grande industrie was to destroy their domestic manufacture, or whether the import of English goods was to accomplish this. With protection, the Russians effected it, without protection, the English. That seems to me perfectly evident.”

Engels’ remark here raises two fundamental questions. One, it is as pithy and cogent an argument against free trade as is possible. Unlike all arguments in defence of free trade, from the times of David Ricardo, Eli Heckscher and Bertil Ohlin, down to our own, which invariably ignore all income and employment effects of instituting free trade and talk only of “efficiency gains” (which in fact are non-existent because of the reality of these income and employment effects), Engels here is emphasizing precisely the income and employment effects. He is in effect justifying a policy of protection by Russia on the grounds that in the absence of such a policy English goods, as opposed to those produced by Russia’s own capitalist industry, will replace Russia’s domestic industry, whose employment effects for Russia will be infinitely more adverse.

The second question raised by Engels’ remark is this: if protection for the products of Russia’s capitalist industry against the import of English goods is justified, then why can’t Russia’s domestic industry be protected against the products of Russia’s own capitalist industry?
Engels’ argument in this context consists of two parts: one, that Russia had to have its own *grande industrie*; and two, that *grande industrie* in Russia could only be developed under the capitalist form. In his words,

“So far, then, we agree upon this one point, that Russia, in 1892, could not exist as a purely agricultural country, that her agricultural population must be complemented by industrial production.

“Now I maintain, that industrial production nowadays means *grande industrie*, steam, electricity, self-acting mules, powerlooms, finally machines that produce machinery. From the day Russia introduced railways, the introduction of these modern means of production was a foregone conclusion. You must be able to repair your own locomotives, waggons, railways, and that can only be done cheaply if you are able to construct those things at home, that you intend to repair….

“One thing is certain: if Russia really required, and was determined to have, a *grande industrie* of her own, she could not have it at all except under some degree of protection, and this you admit. From this point of view, too, then, the question of protection is one of *degree* only, not of principle; the principle was unavoidable.

“Another thing is certain: if Russia required after the Crimean War a *grande industrie* of her own, she could have it in one form only: the *capitalistic form*. And along with that form, she was obliged to
take over all the consequences which accompany capitalistic *grande industrie* in all other countries.”

Engels however has himself noted in the same letter the deleterious consequences of Russian capitalist development for employment within Russia (taking both capitalist and pre-capitalist sectors together), and predicted that employment “will only slowly increase” afterwards. And in view of what he himself has said about the slow growth of the external market and the competition among the capitalist powers for this slowly growing external market (whence the stagnation in Britain), the employment growth over time in a Russia where deindustrialization is allowed full play may be exceedingly slow indeed. The Narodniki in short were quite right in underscoring the acute misery that capitalism would bring to the Russian population. Under these circumstances, couldn’t an orderly and controlled transition from domestic to *grande* industry be visualized for Russia? And couldn’t such a transition, as opposed to the *spontaneous* transition that capitalism entails, be effected under a form other than capitalism, say for instance, through a collective of petty producers; indeed such a controlled transition could at all occur only through a form other than capitalism.

Engels was right in ruling out any non-capitalist transition to modern industry in Russia *under the then prevailing class configuration*. But from his remarks it is clear that he would not rule it out under all circumstances. There is in short no cosmic teleology that ordains all countries to pass through the full gamut of capitalist development irrespective
of the misery being experienced by the working people. This misery might force them to move beyond capitalism and, through stages, move towards socialism, even before capitalism has acquired any degree of maturity.

The Narodniki might have been wrong in believing that the mir still existed, and that a direct transition from the mir could be made to socialism; and Marx (in his letter to Vera Zasulich) and Engels in the above-mentioned letter were right in maintaining that in Russia of the time capitalism was the most potent force, which Lenin established through detailed statistics in his *Development of Capitalism in Russia*. But the idea of going beyond capitalism on the basis of a proletariat-led democratic revolution in a society like Russia, or any other third world society, whenever an opportunity presented itself (and not necessarily only when capitalism had reached some sort of an “advanced status”), would have been welcomed by both Marx and Engels. The extreme sympathy with which Engels treats Danielson’s argument is a pointer in this direction.

Within such an alternative mode of transition, there is no reason why pre-capitalist methods and pre-capitalist producers should not be protected from encroachment by capitalism of the same country, even while modern methods of production and grand industrie are being introduced in a controlled manner. Many third world countries after decolonization have been concerned with this issue; and there is much in Engels that can be construed as forming a bridge between Marxism as
it has developed in Europe on the one hand and the concrete concerns of third world revolution on the other.

V

There has alas been a tendency, even among sections of the Left, to see Engels only as a popularizer, and that too of a simpliste kind, of the profound ideas of Marx. This perception however is completely off the mark. Marx and Engels complemented one another; their views were not necessarily identical on all subjects; and from the perspective, at least of the third world Left, some of his insights which he alone has are quite invaluable. It is a pity that he did not have the time to develop these insights in greater detail.

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