Was Marx Right?
Guest: Peter Klein
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WOODS: I just told everybody about this crazy article in *Rolling Stone*. I wouldn't have known about it if somebody hadn't Tweeted it to me. So the importance of Twitter shouldn't be understated. I sometimes neglect Twitter. I'm on Twitter @ThomasEWoods. Are you guys just @Mises? Is that your Twitter—

KLEIN: Right. We're @Mises and I also I'm on Twitter @PeterGKlein.

WOODS: All right, there you go. So follow all three of us after this program.

I want to go through, point by point, these "five surprising ways" that Karl Marx predicted 2014. Articles like this, Peter, are always written by insufferable jerks who want to say: all you stupid peons think communism was a big failure, but that just shows you didn't understand it, man. Because Marx was like a smart guy and he had a lot of great insights and I'm going to share them with you stupid rubes.

KLEIN: Yeah. You know, the continuing fascination with characters like Marx, along with John Maynard Keynes, it's itself a topic for another one of your shows. Marx could have easily just slid into the dustbin of history, to use a Marxist phrase, but people continue to read his work even though it's just ponderous and tendentious, not particularly insightful. There's really not a whole lot of value in reading Marx, but people continue to do it. I think because they like the conclusions that he reaches.

WOODS: I probably will have to have a program at some point on Marx more generally just because I'm tired of people who tell me he was a great social scientist and if you don't see that then you haven't been reading him. But, I mean, talk about a guy whose system is just based on one fallacy and disprovable statement after another, and which his own followers have to remake to make it even remotely plausible.

KLEIN: Right. So one thing that's interesting about this article is that at the end the author recognizes that Marx is often misinterpreted as someone who developed a complete, coherent theory of socialism, and, of course, as Ludwig von Mises pointed out, Marx said very little about socialism. What he did say is demonstrably false, both in logical terms as Mises approached it, and on historical terms. But this author continues to make the argument that you often hear, that while Marx may have been incomplete or even wrong on socialism, he was a very perceptive analyst and thoughtful critic of capitalism. But I think Marx was neither of those.

WOODS: Well let's start with point number one, the great recession (the heading is "capitalism's chaotic nature"). Embedded in this already is a faulty assumption, namely that it's a natural feature of capitalism to have central banks engaging in all these interventions. All right. Here we go. I'm going to read it and then we're going to talk about it.

KLEIN: Okay.

WOODS: We read this: "The inherently chaotic, crisis-prone nature of capitalism"—already question begging—"was a key part of Marx's writings. He argued that the relentless drive for profits would lead companies to mechanize their workplaces, producing more and more goods while squeezing workers' wages until they could no longer purchase the products they created." Now I don't know, should we stop there? There's so much there I don't want to forget about. You know what, let's stop there.

KLEIN: We can, sure. Let me say on this article in general, I didn't know whether to laugh or cry at the whole thing, because what the author gives us is a mixture of very general statements from Marx that could be used to apply to almost anything, that aren't very specific, that aren't predictive at all, and specific remarks of Marx that don't have anything to do with current reality. Let's put it this way. Marx did not offer any comprehensive theory of economic crises. Marx did not have a business cycle theory that was laid out in very specific detail. And certainly there's nothing at all in Marx's system than in any way corresponds to the kind of business cycle that we're currently going through. A statement like the one you just read, that capitalism is inherently prone to crisis. Okay, fine. Then one could say that and one might say, even an Austrian economist might say, that if by capitalism it you mean our current state capitalism, with central banking, cronyism, and so forth, yeah, that is inherently unstable and is inherently crisis prone. Ludwig von Mises would not disagree at all with a statement like that if that's what you meant by capitalism. Such a claim, from something like that, that Marx has unique insight into the financial crisis and the ongoing recession, it's just nonsensical.

WOODS: Well, let's look at the second sentence: "The relentless drive for profits would lead companies to mechanize their workplaces, producing more and more goods while squeezing workers' wages until they could no longer purchase the products they created." Now you are a scholar of entrepreneurship. Isn't it the role of the entrepreneur to anticipate the level of consumer demand, and part of that anticipation is how much people can afford to buy? Isn't it the job of the entrepreneur to prevent that outcome?

KLEIN: Oh, of course. What entrepreneurs are doing in their relentless pursuit of profits, is to try to produce the goods and services that consumers most value and, of course, entrepreneurs want to pay the inputs into production as little as possible. Right? They prefer to pay less to workers rather than more, but competition among entrepreneurs for the services of workers ensures that wages will be driven up to what the Austrians call their marginal value product. In other words, labor, just like any other resource, gets paid according to its marginal contribution to production. Marx's whole idea was that there was this systematic, long-term trend for real wages to fall as more and more of what he called the surplus value of production, is extracted or exploited by the capitalists. That's completely the reverse of the historical experience, as you well know, in that real wages over the last two centuries have continued to rise in terms of the goods and services that one can buy with the money wages that are earned. So as a long-term secular trend, this doesn't bear any relation to what we've seen it all.

WOODS: And in fact, *Rolling Stone* seems not to realize that one of the controversies among Marxist scholars has been how to reconcile this problem, this type of statement by Marx, with the obvious historical reality that the proletariat has not become immiserated (to use a Marxian word), but has improved. So some of them have had to claim that what Marx meant was simply *relative* impoverishment. They would actually get better off but they wouldn't get better off as quickly as others. And his guy is just repeating the raw Marxist statement as if this debate hadn't even occurred.

KLEIN: You raise a very good general point. Of course it's fun to talk about a *Rolling Stone* article and a lot more people will probably read this than would read some obscure academic article on Marx but it's as if the author is completely unaware of what's going on in contemporary Marxian scholarship. I mean, there are quite a few academic Marxists still around and none of them would cut and paste from Marx's words out of context in this way. Contemporary Marxism is all about reinterpreting Marx as if he "really meant" things, as if what he meant was very different from what he actually wrote, to solve the problem that you just brought up. That everything that Marx predicted about how capitalism would work—I mean, none of it corresponds at all with what capitalism actually does and what the historical experience has been. Which is why, just as an aside, not to go off on too much of a tangent, but most of the interest in Marxist thought nowadays is not really among economists or historians, but critical legal theorists and among literary scholars and so forth who believe there's a kind of a cultural Marxism or philosophical Marxism that may be useful for interpreting different social and cultural trends. But there's hardly any economists or economic historians who take Marx very seriously anymore.

WOODS: When you read Marx, he actually suggests—and Rothbard focuses on this quite a bit—that the capitalist almost doesn't have a properly formed rational faculty. Marx will claim that it's a mania to accumulate more and more capital. Why? For the sake of accumulation! Just keep accumulating. Keep producing. But why would we assume they have no brain? I mean, let's assume that for a moment they did have no brain. And all they did was just reflexively produce more and more and more and more and more, way beyond the point at which anybody would want a particular good. So you've got a glut of a particular good and you yourself don't have a whole lot of use for 800 million widgets, so what is the market response? What do you do then with your 800 million widgets to make sure they clear the market?

KLEIN: You're right. Marx really doesn't have any kind of theory of markets. There's no microeconomics, no sophisticated microeconomics in Marx. As you point out, his capitalists, but for that matter his workers too, his managers, all of the actors in Marx's system, are modeled as just part of a homogeneous class acting in a mindless way according to class interest. There's not really any theory of individual choice. There's no rational or purposeful behavior. There's no understanding in Marx of the interconnectedness among different markets. Marx's analysis is almost a little bit pre-Keynesian in the sense that it focuses on these broad aggregates and proposes mechanisms among these aggregate categories of workers and resources and so on without any kind of understanding of the sophisticated interrelationships among markets, among different types of economic actors, among different resource classes and so forth. So, I mean, it's kind of a sophomoric, cartoonish understanding of what an economy is like. Now, in Marx's defense, or what Marx's defenders have said, Marx wasn't really any economist in that sense, in the sense that we think of the Austrian school or even a Chicago style economist. That wasn't what Marx was all about. He was doing sort of grand sweeping social theorizing that doesn't have any rigorous foundations in actual human behavior.

WOODS: All right. Let's return to point number one from the article. He says, we produce and produce until there's simply no one left to purchase our goods. Again, he doesn't bother to ask, why would somebody do this? Then he says, "The cycle is still playing out before our eyes. Broadly speaking, it's what made the housing market crash in 2008. Decades of deepening inequality reduced incomes, which led more and more Americans to take on debt. When there were no subprime borrowers left to scheme, the whole façade fell apart just as Marx knew it would."

There are so many things to say about that but let me just introduce one quick thing before I turn it over to you. Gary North refers quite a bit to the Pareto split, were he says that in all societies forever, everywhere in the world, it makes no difference, there's always a 20-80 split, that the top 20 percent have 80 percent of the wealth. And then when you keep calculating, well, the top 20 percent of the top 20 percent will have 80 percent of that, and so on. In fact, therefore, the so-called distribution of wealth we have now more or less conforms to that. It's not like this is some brand-new phenomenon that capitalism brought about. This has existed forever. And because it has existed forever, this level of income inequality can't possibly be the explanatory factor behind one event in 2008. But what else do you have to say about this?

KLEIN: I agree with you completely. And as you well know, Tom, having written the book on the great recession on the crash in 2008 and the subsequent recession, this isn't any kind of analysis that fits in any way with what we know of the housing market, what went on in the last five to ten years prior to 2008. There certainly was no increase in mortgage debt corresponding with "decades of deepening inequality." Subprime borrowers were not generally low-income individuals who were suffering from decades of inequality. The malinvestments in the housing stock that, as Austrians understand, led to the crash and the subsequent recession and so forth, don't have anything to do with the kind of factors that are described in this quote. Of course, you've noticed that the author doesn't stop to ask, where were the indebted borrowers getting these loans?

WOODS: Ding ding ding! That's right.

KLEIN: Where was the money coming from? There's of course no Alan Greenspan or Ben Bernanke in this story. There's nothing about government regulations on housing, on borrowing and so forth. Again, this is almost just inventing a sentence to try to link some idea in Marx to some very, very generic notion of a housing problem. It's as if the author said, okay, housing debt. I've got to work that in somehow. I know that has something to do with the current problem. What did Marx say that could be connected to housing and debt? You know, without actually paying any attention to what happened in the 2000s. There's no understanding of the financial crisis in this analysis at all.

WOODS: Right. No attempt to understand individual motivations. Why would people have behaved in this reckless, speculative fashion when it came to real estate? Could it have had something to do with moral hazard created by Fannie Mae and Freddie Mac? Could it have to do with moral hazard created by the "Greenspan put"? Could it be the false assurance created in 2001 when Greenspan just kept lowering interest rates that housing prices never fall? That didn't just occur. That was caused by government or government-created agencies.

KLEIN: As you point out, your explanation has to fit the sequence of events in time. This whole article is riddled with these sort of fallacies, where he just sort of picks some general idea of Marx and implies that it explains something that's going on in the present without considering the timing whatsoever. I think it was Larry White who first said, or from whom I have a great quote, that blaming the financial crisis on greed is like blaming a plane crash on gravity. In other words, if people were greedy, if capitalists were greedy in 2006 and 2007, they were greedy before and they're greedy now. Just invoking greed—it's a bit like invoking "overproduction" or invoking "inequality" as an explanation for some concrete historical event. It's just made up.

WOODS: And there have been societies with vastly greater inequality where this hasn't happened. In fact, on the eve of the Great Depression, there was not an increase in inequality going on. There was actually an *increase* in the share of incomes going to wages and salaries and a relative fall in incomes going to interest and entrepreneurial income, etc.

Now the second point is, he says, the iPhone 5S ("imaginary appetites"). So this is a very John Kenneth Galbraithian kind of premise.

KLEIN: Exactly. I was thinking of Galbraith exactly as I read this paragraph.

WOODS: Exactly. He says, "Marx warned that capitalism's tendency to concentrate high value on essentially arbitrary products would over time lead what he called 'a contriving and ever calculating subservience to inhuman, sophisticated, unnatural and imaginary appetites.' It's a harsh but accurate way of describing contemporary America, where we enjoy incredible luxury"—But wait a minute: I thought we were all immiserated, right? Didn't he just tell us that we've had inequality? He says, "We enjoy incredible luxury and yet are driven by a constant need for more and more stuff to buy. Consider the iPhone 5S you may own. Is it really that much better than the iPhone 5 you had last year or the iPhone 4S a year before that? Is it a real need or an invented one?" He says we destroy perfectly good products for no reason. What do you say to that? Why do I need an iPhone 5S when I've got a perfectly good iPhone 5, Peter Klein?

KLEIN: There's a stereotype of Marxists as being these grim and humorless types who dress poorly and don't laugh at jokes and have unkempt hair and so forth. And I guess it's probably a good caricature, because Marxism is infused with this very sort of patronizing attitude towards ordinary people. Marx despised ordinary people. Contemporary Marxists have nothing but contempt for the masses because the masses like to consume, and they like to consume all kinds of things that sophisticated Cambridge, Massachusetts or Berkeley, California Marxists would consider inappropriate. I remember a professor I once had—he was not exactly a Marxist but was sort of sympathetic to Marx—complaining to me about precisely this point, that people spend their money on the dumbest things. You know, crass consumerism. People should be listening to classical music rather than Miley Cyrus—of course I agree with that, but they shouldn't be going to silly movies and so forth. They shouldn't be wearing dumb clothes. Well gosh, I mean, you and I might share many aesthetic preferences with some of these lefty types, but it has essentially nothing to do with what rules we think should apply to a market system.

Now Marx was famous for embracing the labor theory of value. So Marx completely rejects what we would now describe as the Austrian notion that value is subjective. That beauty is in the eye of the beholder. That it's impossible for us as outside observers to say which of the consumer's desires, wants or needs are legitimate, which are illegitimate. But this is the mentality, again, the patronizing attitude that characterizes central planners. Marx and the Marxists want to say what human needs are legitimate and what needs are illegitimate. And they dislike a system in which ordinary people are free to spend their hard-earned income on what they want. If people think an iPhone 5 is better than an iPhone 4, there's certainly no scientific principle that would allow us to say, well no, no, Tom, you would really be better off if you had spent that money on a new suit or on a pair of shoes or on a trip to the Grand Canyon or whatever. There's no scientific principle by which one can determine which individual wants or needs are more legitimate than others.

WOODS: And with Galbraith, there is the implication that human beings are really like zombies who are just waiting to be manipulated by the next advertising campaign that will elicit from them the desire to go buy a product they wouldn't have cared about or known about or felt the need for if it hadn't been for this advertising campaign manipulating them. But as Rothbard pointed out in his critique of Galbraith, if that were true, then we wouldn't have business firms spending as much as they do on marketing research to figure out what consumers want. If all you need to do is make a slick advertisement and people will just automatically buy whatever you contrive or whatever you subliminally indicate they need to buy, firms would be a lot happier—they wouldn't have to spend all this money figuring out what the heck these inscrutable consumers want.

KLEIN: Yeah. Why would any firms ever go bankrupt, right? They could just persuade people to buy whatever sort of crap they're producing.

WOODS: Especially today, with YouTube. Just make a free ad. Everybody will go buy your product.

KLEIN: Speaking of Galbraith, Rothbard also noted that Galbraith's view that all phones are basically the same and all automobiles are basically the same, that people just think they're different because they're tricked by clever advertising, is actually the reverse of the truth. Right? To people who don't know anything about cars and don't care about cars, well, a car is just basic transportation. It's four wheels and a steering wheel, and you don't really distinguish one from another. But if you're a car enthusiast, if you're a car expert and you really study carefully automobiles and the automobile industry and you race cars or you show cars or whatever, then you're very carefully attuned to subtle differences among the different products within the category. In other words, the more you know about something, the more you realize how different members of the category are. The less you know about it, you think it's all just sort of the same. So it's not that advertising convinces you that there are differences, or makes you believe in differences that really aren't there. The more you know about the product, the more attuned to the actual differences you are.

WOODS: Peter, we've gotten through two out of the five predictions, that Marx allegedly made about 2014 and I really do want to hit the other three because it gets juicier as we go along. So, and this is the first time in the history of the Tom Woods Show I've ever said these words, would you be willing to come back tomorrow and keep talking with me?

KLEIN: Tom, I never turn down an opportunity to talk even more. So of course I'd be delighted to do that.