No, Marx Was Wrong
Guest: Peter Klein
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The following is part two of the discussion begun during the February 5 program. Read that transcript first.

WOODS: So we're on number three out of five. Number three begins with "The IMF," and the subheading "The Globalization of Capitalism." I'm going to read the paragraph and then we'll comment on it. Now of course, it assumes that the IMF is part of capitalism. The IMF is funded by governments. By definition, it's not part of the nexus of voluntary exchange. Again, we just have a category mistake here.

So we read this: "Marx's ideas about overproduction led him to predict what is now called globalization, the spread of capitalism across the planet in search of new markets." And he quotes Marx as saying, "The need of a constantly expanding market for its products chases the bourgeoisie over the entire surface of the globe. It must nestle everywhere, settle everywhere, establish connections everywhere." The author continues, "While this may seem like an obvious point now, Marx wrote those words in 1848, when globalization was over a century away. And he wasn't just right about what ended up happening in the late twentieth century. He was right about why it happened. The relentless search for new markets and cheap labor, as well as the incessant demand for more natural resources: our beasts that demand constant feeding."

Now we'll leave out the IMF, because he's just using that as a catchall phrase; he has a cutesy little title for each one of his points. So he thinks the IMF embodies—

KLEIN: He thinks his readers will bristle at IMF.

WOODS: Yeah. Right. They don't really know what it is but it's probably pretty bad. And of course, the International Monetary Fund, the monetary aspect of the monetary fund, is all based on money that is government supplied. There's nothing capitalistic about it other than that it involves money. So they feel like, well, I know capitalism has money, my Monopoly board game has a lot of money in it, so this must be capitalism.

All right, forget the IMF, though, because he doesn't really mention the IMF. You especially, somebody who talks a lot about the firm, industrial organization, etc., what's your reaction to what I just read?

KLEIN: It's so funny on a number of levels. First the idea that Marx was really prescient in 1848 by explaining that trade occurs across international boundaries. The idea that that's somehow novel would shock people in the sixteenth and seventeenth and eighteenth centuries, Adam Smith and David Ricardo and of course anyone familiar with international trade—which had been going on for a couple of centuries at least before Marx was writing. So there's certainly nothing particularly insightful about this idea. But what's funny is, think about the way Marx puts it. I mean, imagine that you're an impoverished consumer in some remote part of the world in sub-Saharan Africa or eastern Europe or the Americas and all of a sudden here come ships loaded with goods from another place that are available for you to trade, things that you could not get, or you cannot produce or obtain in any way in your home region, and you can take goods that you can produce efficiently and effectively, and you can exchange them with people far away for goods that they produce efficiently and effectively and you could realize these gains from trade. You know, the principle of comparative advantage, developed by Ricardo in the 18-teens and so forth. To Marx, this is like an invasion. Right? It's like if a ship pulled up on shore and they opened up the holds and instead of armies coming out, there are merchants coming out with goods and services they want to offer to me in exchange. This is like the plague to Marx. This is like a horrible military conquest. Of course, global trade makes people better off, as Adam Smith and David Ricardo and their predecessors and their followers all perfectly well understood, and Marx did not. This idea that globalization represents conquest by imperialistic firms that are acquiring new territories and compelling people to trade with them, of course, is absolutely ludicrous.

Now it should be said that many of the large trading firms in Marx's day were government-connected monopolies. Marx would, of course, want all trading to be conducted by government-controlled monopolies. But of course, this is very small fraction of globalization, of global trade as a whole. So there's just nothing in here at all that has anything to do with international markets, with global exchanges of labor and goods. Those are all for the good. Those all make people better off, and not just in a trivial, academic way, but many people who would otherwise have died of mass starvation in the developing world have survived and indeed prospered and their standards of living have increased rapidly precisely because of this thing, globalization, that is such anathema to Marxists and other left-wing critics of capitalism.

WOODS: Marx always uses military imagery, as you say, to refer to normal market exchange. It leaves the reader with the impression that something sinister is going on here, that capitalism just irrationally drives people to go all over the world doing their sinister work. But when you peel away the crazy rhetoric and you just try to think about it normally, what's actually going on is that there are a lot of people the world and they have a lot of needs. And we have to think of new and more efficient and less costly ways of meeting those needs. That's really what's happening. That's all.

KLEIN: That's right. Look at Marx's wording. The need of a constantly expanding market for its products chases the bourgeoisie over the entire surface of the globe. It must nestle everywhere, settle everywhere, establish connections everywhere. That sounds horrible.

WOODS: Yeah.

KLEIN: It's like an octopus with these tentacles that are grabbing people and squeezing them.

WOODS: It's an octopus. Right.

KLEIN: Of course, it's almost like philanthropy. I mean, these capitalists are going around the world offering to make people's lives better, and that's a horrible thing to Marx.

WOODS: Let's say, I don't know, 85 percent of modern companies, who's their natural target audience? Whom are they appealing to? The mass market. Almost every firm is trying to produce things for the general public. So they're trying to think of ways to satisfy not the desires of Queen so-and-so who wants a new diamond necklace, but they're trying to satisfy somebody who wants a toaster or somebody who just wants to improve his life in some way that may not impress a Cambridge Marxist professor, but will in fact marginally improve the standard of living of an average person.

KLEIN: Oh, that's absolutely right. I mean, the elites always do well under any system of social organization, including communism. It's the masses who have the most to gain in relative terms from capitalism as opposed to socialism. And just to segue into point number four about Walmart. Walmart is supposed to be a dirty word; when a Marxist hears "Walmart," his ears perk up right away. But just as you said, the greatest beneficiary of Walmart is not some wealthy shareholders. It's the consumers of Walmart. Walmart is a store that caters to low-income consumers, that employs relatively low skilled individuals. Walmart is the greatest benefactor of the least well-off people in America of any major corporation. But you wouldn't expect a Marxist to understand that or to appreciate it.

WOODS: As a matter of fact, Walmart has taken a vast network of distribution of goods and broken it up into a bunch of different occupations that a lot of average people can perform. It's been so well mechanized that somebody who couldn't possibly conceive of the problems at stake can press a few buttons and play an important role in this overall structure. And the complaint is that these people aren't being paid enough. But if there were somebody out there who thought a particular person could better serve the public in his firm, that person would've been hired by that firm. If Walmart is hiring them at all, it means this is the only firm that thought my labor was worth something. Why would that be the outfit that you would be critical of? Why aren't you critical of all the firms that didn't hire these people at all? I know that's not the point of the article, but I always wonder about that. Why is the one firm that gets criticized the firm that actually employed the person and not all the other greedy firms that are paying them zero dollars an hour?

KLEIN: Again, it's snobbery. It's a patronizing attitude. Most of these writers are people who are writing from New York City or LA. They'd never even been into Walmart, much less have regularly depended on a Walmart for their goods and services. They're snobs. They're elitists. And of course, my gosh, this company is headquartered in Arkansas. How much more socially irresponsible can you be? They don't even have a good dinner theater at their Walmart headquarters. I think it's pure elitism and snobbery and a failure to recognize that companies like Walmart are huge benefactors of the least well off.

And by the way, what the author's trying to argue here is somehow that the existence of Walmart validates Marx's prediction that capitalism would come to be dominated by these sort of big monopoly firms. Again, this is just a completely invented assertion. Yeah, there are lots of big companies like Walmart. Walmart has a large market capitalization. It's made very effective use of economies of scale. Microsoft is a large corporation. General Motors is a large corporation. There are lots of large corporations in the U.S. and around the world. But overall, there has been absolutely no increase in average rates of concentration since Marx's time. In many industries, in many cases, the industries are much less concentrated than they were in Marx's day. They're more competitive, using that term in the conventional sense of having lots of firms doing different things and experimenting and so forth. There are so many fallacies here, it's hard to pick them out. But this is just arguing by anecdote. I mean yes, there is a large company. Somehow that is supposed to validate Marx's idea "that market power would actually be centralized in large monopoly firms as businesses increasingly preyed upon each other." That just doesn't correspond to reality in any way.

WOODS: Well, let me read the sentence in here that really, in point number four, gets to the heart of his claim. He says, "Today mom-and-pop shops have been replaced by monolithic big-box stores like Walmart. Small community banks have been replaced by global banks like J.P. Morgan Chase"—although obviously that has nothing to do with capitalism, because the whole banking system is a cartel structure under the Federal Reserve, which is a creation of Congress, and the money is all supported by legal tender laws. It's monopolistic through and through. It's a cartel. It's nothing like the free market. And then "small farmers have been replaced by the likes of Archer Daniels Midland." Well, agricultural subsidies may have contributed to that. But I know this is all anecdotal, but this is what a lot of people come face-to-face with every day. These are things people see. Now what you may be talking about is going to sound very surprising to people that, in fact, average concentration rates are no higher than before. People aren't likely going to come across that because you'd have to read a scholarly article in a journal somewhere, an obscure source, even to be aware of it.

KLEIN: Yeah. And that's absolutely right. I think it's easier for people to understand it this way. Suppose you live in a community where, in your grandparents' day, and your parents' day, there were 25 little mom-and-pop shops downtown, and now most of them are boarded up because there's a Walmart and a Best Buy and Home Depot on the periphery of town. So if you're only looking within the geographic constraints of your little town, it may very well be that there are a small number of big-box stores and all these other mom-and-pop stores aren't there anymore. But there's two ways in which that's the wrong way to measure competition. Right? The total amount of goods and services that are available to you would be vastly higher in that case than what you'd get in the mom-and-pops. It's not that the Walmarts and the Best Buys are simply displacing the mom-and-pops in cases like that. But they're offering vastly more goods and services than the mom-and-pops collectively offered before the big-box stores came about. The second point is, have these people never heard of something called the Internet? Right? Capitalism, globalization, the fact that even if you live in a small town and there's only one store within a 25-mile radius, if you have access to the Internet and there are streets that a UPS truck can drive upon, you have a huge set of global companies at your fingertips. Just a few clicks away. So measured that way, things are much more competitive than they ever were in Marx's day.

WOODS: Right. And not only do you have giant companies at your fingertips, you have a huge array of tiny little companies at your fingertips on the Internet.

KLEIN: Exactly.

WOODS: And in particular, a lot of those are fostered by a major corporation like Amazon, through its Amazon Marketplace. It's as if none of these things exist at all, according to this article. And incidentally, Peter, anybody who makes the argument as you and I do, that the array of consumer goods is vastly greater and there's a more diverse array of consumer goods, is accused of being really just stupid, materialistic dolts who don't understand that there are things more important in life than your crummy consumer goods. So let me translate that into something that maybe people can appreciate more vividly. My own wife grew up extremely poor. Her family was poor to a degree that most people can't imagine. And it meant something that they could go to Walmart and get inexpensive children's clothing. I mean, literally so they could clothe their children. You know what? That is not just, well, I need to have the most recent frippery in order to satisfy my desire for conspicuous consumption. No. This was a real, living, breathing family whose standard of living was vastly improved because they weren't being ripped off every time they wanted to buy a onesie for an infant.

KLEIN: That's right. There's a lot of this sort of phony nostalgia about, oh, you know, walking into the old hardware store and being able to chat up the proprietor and he can ask you how's your mother-in-law doing, and so forth. Two things to note about that. First of all, in most cases those mom-and-pop stores were charging very high prices compared with what you would pay now. And lots of people simply could not afford to patronize those mom-and-pops. And yeah, if you were relatively well-to-do, you could stroll down the main street and have a cup of tea and chit-chat with the butcher and so forth. But that was not in the interest of the community as a whole. The second point is, there's nothing at all in a free market system that says people can't have little main streets and they can't have small artisan shops. The point is, you have to pay for it. It has to be priced out. Right? If people are willing to pay higher prices for that kind of shopping experience, then by all means there will be plenty of entrepreneurs willing to provide little shops like that. And of course, we see those. There are lots of artists and bakeries and butcher shops and organic restaurants and so on, flourishing as never before. As supply chains have become more efficient, you can order off the Internet. It's a lot easier to provide those kinds of things than it was before. So the fact that Walmart sets up somewhere nearby by no means prevents people who are willing to pay for it to have whatever kind of cutesy and fun shopping experience they desire.

WOODS: Let's jump to point number five. Low Wages, Big Profits ("The Reserve Army of Industrial Labor"). We read this: "Marx believed that wages would be held down by a reserve army of labor, which he explains simply using classical economic techniques. Capitalists wish to pay as little as possible for labor, and this is easiest to do when there are too many workers floating around. Thus, after a recession, using a Marxist analysis, we would predict that high unemployment would keep wages stagnant as profits soared because workers are too scared of unemployment to quit their terrible, exploitative jobs. And what do you know? No less an authority than the *Wall Street Journal* warns, 'Lately the U.S. recovery has been displaying some Marxian traits. Corporate profits are on a tear and rising productivity has allowed companies to grow without doing much to reduce the vast ranks of the unemployed.' That's because workers are terrified to leave their jobs and therefore lack bargaining power. It's no surprise that the best time for equitable growth is during times of full employment when unemployment is low and workers can threaten to take another job." What's your response to that?

KLEIN: You know, it's hard know what to say to that, there's so many things one could note. If it's true, as the author states, that "capitalists wish to pay as little as possible for labor and this is easiest to do when there are too many workers floating around," then how did we ever get a boom in the first place? A recession means conditions have gotten worse from where they were in a previous period of higher employment. Is it that capitalists wanted to pay workers higher wages and so they had higher incomes and more to spend and this led to some kind of general prosperity and then all of a sudden, employers changed their minds and decided they wanted to get greedy and wanted to start paying workers less? How do you get a business cycle out of this kind of analysis? That's point number one. Point number two, this whole idea of the reserve army of the unemployed, again, it's just a complete fabrication of Marx's imagination. Marx doesn't have any theory of what determines wages. Marx think that wages are determined by some sort of coercive bargaining between wealthy, powerful, capitalists and poor, unorganized workers, but again, then why would wages rise and fall over time? How would you explain differences in wages across industries? How do you explain the fact that workers with more skills and more education earn higher wages than similar workers with fewer skills and less education and experience, even if they belong to the same union or work in the same industry? There's nothing in Marx's analysis that can explain anything of any sort of actual patterns of wage profiles over time or across worker types or across industries or whatever. Again, as we said before, Marx rejected any sort of micro-foundations of his kind of analysis, so he would reject the notion, the contemporary correct notion, that wages are determined by marginal productivity. And so Marx has nothing else to use to explain wages that he personally thinks are too low, so he invents this notion of the reserve army of the unemployed and the greedy capitalists who are refusing to pay their workers what they deserve or unions that aren't powerful enough or whatever. Again, there's no theory of earnings in here whatsoever. No theory of wages and certainly no theory of recessions.

WOODS: So having looked at all five of these things, what do you think is the greatest, most common misconception about the market that we've seen in here, that you think the general public has, that if we could overturn, would go a long way toward tumbling all the other misconceptions?

KLEIN: I think maybe the most obvious kind of general fallacy that Marx adhered to was this notion that we can explain economic outcomes in terms of relationships among these broad and static categories of individuals. Right? Labor versus capital. Financiers versus assembly-line workers. And this sort of thing. That isn't how it an economy works. This sort of crude aggregationist fallacy. And especially in a modern economy. We were talking about Walmart earlier. Well, the workers of Walmart, wage-earning individuals, they're part of labor, I guess, right? The management at Walmart, most of these people are on wages and salaries. They're also part of labor. The earnings of Walmart cannot go into the hands of a few oligarchs. The profits that Walmart earns are paid out to Walmart shareholders as dividends. And who are the shareholders of Walmart? Well, you and me, right? Corporate stock ownership has never been as widely dispersed as it is today in the United States. Most ordinary working people that have any kind of retirement savings, 401ks, whatever, I mean they're the capitalists who are getting the money from Walmart. So the laborers, the managers, the capitalists, the investors, and in many senses the entrepreneurs, these are all the same people. People perform multiple functional roles in the economy, and over time, throughout their lives, they may perform predominantly one and then predominantly another. There's lots of mobility, horizontally and vertically, in a modern capitalist industrial economy. So the idea that at birth you're born into some sort of rigid caste, I guess maybe this reflects Marx's environment in nineteenth-century Britain, that he really thought there was this kind of rigid class system, which doesn't have anything to do with a market economy, theoretically or empirically.