

Reading 4

Marxism and Marxist Economies

I. What is Marxism

Marxism is an ideology which marries together several intuitive, but abstract, ideas on labor, value, and profit with an eschatological view of both history and capitalism that claims to be scientific. For most people today, Marxism is a call to action rather than a dispassionate theory of how production and distribution of output is determined. It has become an umbrella term for class warfare originating from conflicts in labor-management, income and wealth distribution, climate and ecological movements, sexual orientation and gender political movements, etc. Noam Chomsky has said that Marxism is more like a religion than a social theory. It has become something of a cult of personality. Many people think that Marxism is an explanation why central planning is better than a market economy.¹

Here is what Keynes felt about Marxist writings. In the 1920s Keynes visited Russia, where he was able to meet some of his wife's impoverished relatives. Unlike his friends Beatrice and Sidney Webb, or the dramatist George Bernard Shaw, Keynes wasn't impressed by Stalin's Russia.

"How can I accept a doctrine, which sets up as its bible, above and beyond criticism, an obsolete economic textbook which I know to be not only scientifically erroneous but without interest or application for the modern world?"

Although Keynes was a socialist, he was definitely not a Marxist. His own teacher was the famous English economist Alfred Marshall, who was equally unimpressed by Marxism. Marshall remarked

It is not true that the spinning of yarn in a factory ... is the product of the labor of the operatives. It is the product of their labor, together with that of the employer and subordinate managers, and of the capital employed.

Marshall pointed to the capitalist as sacrificing money, which he could be using now, for investment in business - something which ultimately produces work for others. By this logic the capitalist contributes to the work and productivity of the factory because he delays his gratification through investment. Marshall, through the Law of Supply and Demand, attacked the Marxian theory of value. **According to Marshall, price, or value, is determined not just by supply, but by the demand of the consumer. It is true that labor does contribute to the determination**

¹ To be honest, the best explanation of the dividing line between central planning and market outcomes is a paper due to Coase (1937) called "[The Nature of the Firm](#)". Coase was interested in the fact that the macroeconomy organizes itself through market and price systems. Yet, an individual firm operates by bosses and managers telling everybody what to do based on plans. He felt this difference was strange and sought to explain it. Just where does the dividing line between markets and planning exist? Coase was a far better economist than Marx ever was. He also had the virtue of being a scholar and a gentleman.

of price, but so do the wants and needs of consumers. The shift from labor being the source of all value to subjective individual evaluations 'creating' all value undermines Marx's economic conclusions and even some of his social theories.

The famous African-American economist Thomas Sowell wrote in 1985:

What Marx accomplished was to produce such a comprehensive, dramatic, and fascinating vision that it could withstand innumerable empirical contradictions, logical refutations, and moral revulsions at its effects. The Marxian vision took the overwhelming complexity of the real world and made the parts fall into place, in a way that was intellectually exhilarating and conferred such a sense of moral superiority that opponents could be simply labelled and dismissed as moral lepers or blind reactionaries. Marxism was – and remains – a mighty instrument for the acquisition and maintenance of political power.

Sowell was a Marxist when he got his PhD in Economics from the University of Chicago. The finest conservative minds in the world were at Chicago then, but nevertheless failed to persuade him of the wrongheaded nature of Marxism. By Sowell's own admission, it was only later when he began working at the Department of Labor that he realized that Marxism (and socialism in general) was bankrupt. See him discuss this [here](#).

Most economics departments do not offer Marxism as a regular course. More often these types of courses are offered in the political science, sociology, and history departments. The major reason why that Marxism failed to catch hold in economics is that it adopted the labor theory of value, a primitive classical theory of prices which has since been thoroughly discredited. This very visible discrediting of Marxist fundamentals resulted in a complete collapse in scholar's interest in Marx's three volume set on Capital. Modern Marxists have claimed that the labor theory of value is not really that important to Marx's work (however, note Volume I is entirely based on it, and Volume III sidesteps the issue by using an ad hoc and inconsistent transformation from labor value to more modern Walrasian pricing).

Labor theories of value were created in the early 19th century, by people such as David Ricardo, to explain the relative prices between goods. We now understand that these values must be determined in a general equilibrium setting with all supplies and demands, including factor and output prices. Most importantly, the value of goods must reflect the subjective valuation given them by consumers in terms of marginal utility. It will not be valid to try to determine values by how much labor (direct and indirect) is used to produce the good. That would be like trying to cut paper with a single side to a pair of scissors. You need both sides of the scissors to cut paper, and you need supply AND demand to determine prices. The labor theory of value says that supply conditions alone determines values.² But, we all know that both supply and demand are needed

² Of course, Marx must make this claim since he believes that all value is created by labor and thus all value is due labor. Any part of the value of the output not given to labor must be exploitation of labor which he terms surplus value. Unfortunately, in addition to wages, there is rent on land, interest on capital borrowed, and profits, a

to determine value. The modern theory of price begins with consumers, utility, and marginal utility, and then adds conditions of supply to arrive at equilibrium prices. Why then do some people continue to believe in Marxist economic theory?

Part of the reason is that Marxism declares that history will have an eschatology. There will come a time in the future when the oppression of labor by the owners of capital and land will cease because of a violent revolution and the reconstruction of society built on communist principles. Thus, a good Marxist is one who constantly looks for opportunities to protest and spread dissatisfaction with the current state of society, particularly towards the rich. Class warfare was something that Marx and Engels thought would usher in a worldwide communist revolution. They believed that it would be in heavily industrialized countries that labor (the proletariat) would revolt against the owners of capital (the bourgeoisie). In fact, communist revolutions were almost all waged in agrarian societies and were a revolt of the landless against the landed, a holdover from the feudal systems that existed from the beginning of recorded history. These revolts spread to the cities and urban areas of the country, where there were inevitable civil wars between the rural farmers and urban dwellers, mainly over who would run the country, the type of socialism that would be practiced, and most importantly, how the food would be distributed. Literally millions of people died in these early civil wars.

II. The Inherent Flaws of Marxism

There are numerous basic flaws to the Marxist system. The ***first*** flaw is the peculiar demonization by Marxists of capital (its owners and its usage). Most people today recognize that the ownership of capital (or private property) along with a strong system of property rights are the cornerstone of modern, mixed economies. The assignment of property rights forms the very basis for identifying externalities, which then clarifies one of the important roles for government in the economy. Marx also fails to foresee that technical change and machines would lead to an unprecedented increase in per capita incomes throughout the world. For example, despite the rapid capitalization of America, its unemployment rate is still below 5%, meaning there is no reserve army of unemployed being created by technology and capital. The ***second*** flaw is the idea that all wealth and income would become concentrated in the hands of a few, leading to a revolt by the poor. In fact, the actual laws governing the distribution of income and wealth are as yet not very well understood. As we have pointed out, the best way to ensure monopolies and maldistribution of income and wealth do not last is to have a government pledged to the maintenance of a free and open competitive environment. Large economic entities should be broken up and forced to compete. Patents, copyrights, and other forms of protection must be granted in sparing ways. Trade and the movement of capital should be liberalized as much as possible. People must be given the opportunity to improve themselves by working to make others better – which is the market system of doing things. The ***third*** flaw in Marxism is the

residual that compensates the owners of a business for risks undertaken. These profits are bid down to a minimum level by the force of competition. Marx saw the economics of his time as "vulgar", presumably because they were insufficiently concerned with the plight of workers.

eschatology. There is no ideal world to which history is moving (either from the right or left). No mass movements are going to replace the current system with a fair and just society, with production and distribution following the formula "from each according to his ability, to each according to his needs". Life is much more prosaic. There will always be struggles about just how mixed an economy should be. We will always live in a highly diverse world. The **fourth** flaw in Marxism is the belief that heavy-handed, top-down planning and command can produce a standard of living that is higher than those of economies in which no such planning is undertaken. Countries that emphasize market forces are clearly richer and more stable than countries that emphasize heavy-handed planning and command. The evidence for this is undeniable. This is one of the reasons why that Francis Fukuyama wrote his book **The End of History and the Last Man**. This book was about how that the West had won the Cold War and that nobody really believed in Marxism anymore. There was no need to continue the Cold War, and the history of that struggle was over. Indeed, the liberal democratic model of government was the apex of political evolution. However, Fukuyama is also a secular eschatologist since he asserts that the ideal government (i.e. liberal democracy) has been reached and nothing should be able to replace it. He not only is a secular eschatologist, but he believes the ideal state has arrived. Naturally, he has his critics.

III. The Economic Performance of Marxist Economies

There are currently five (5) countries in the world that are ***self-declared socialist states***.³

China, People's Republic of	1949	Communist Party of China
Cuba, Republic of	1966	Communist Party of Cuba
Laos People's Dem Rep	1975	Lao People's Revolutionary Party
Vietnam, Socialist Rep of	1976	Communist Party of Vietnam
Dem People's Rep of Korea	1948	Worker's Party of Korea

Among these five, China and Vietnam have been introducing substantial market reforms and de-emphasizing to some degree large scale nationalizations and central planning. None of these have explicitly repudiated socialism as a defining characteristic of their state.

China has had the most success in reforming and thus developing its economy. Earliest markets-based reforms began in agriculture in 1978, but have been on-going and spreading ever since. The change in China has been startling, especially after 2005. However, China is not giving up on

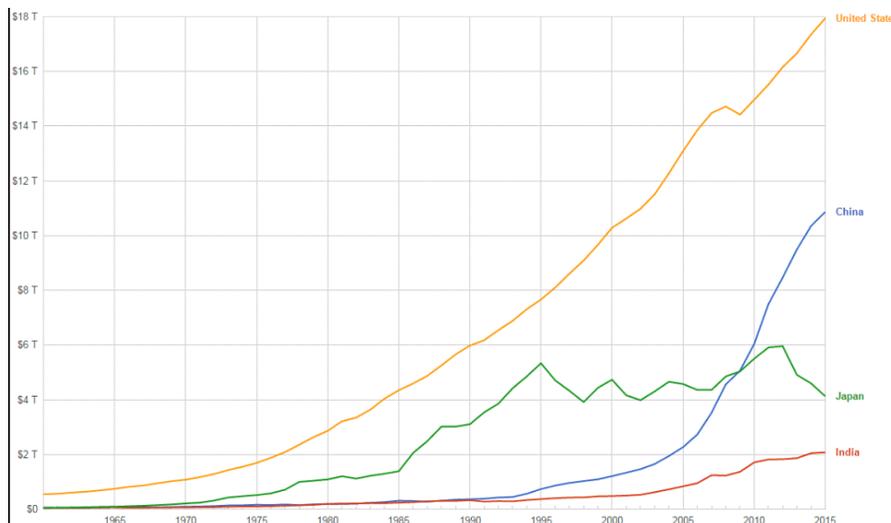
³ A sovereign state is a different entity from the political party that rules the given state at any given time. Thus, a country may be ruled by a socialist political party but without the country itself claiming to be socialist. This has occurred in both one-party and multi-party political systems. In particular, there are numerous cases of democratic socialist political parties winning elections in liberal democratic states and ruling for several terms until a different party wins the elections. For example, the Swedish Social Democratic Party has won most elections in Sweden since 1945, but the country never adopted socialism as its official ideology.

Marxism. In July of 2016 Xi Jinping pledged that the Chinese Communist party is going back to its Marxist roots, stressing ideological purity in a speech to mark the party's 95th anniversary.

Communist orthodoxy is hard to come by in an increasingly prosperous and materialistic China where a growing wealth gap is generating class tensions. But the president stayed well within the careful choreography of party ceremony as he urged its 88m members not to “betray or abandon” Marxism. The whole party should remember, what we are building is socialism with Chinese characteristics, not some other -ism, Mr Xi said in an 80-minute address in Beijing's Great Hall of the People. It is clear that Xi wants to maintain the pre-eminence of the Chinese Communist Party. However, it is not clear how he would do this over time.

Vietnam converted to a market economy in 1987 and ever since it has sought to establish an international position. It joined the Association of South-east Asian Nations in 1995, then in 1999 signed a trade agreement with the US, enabling trade to take off. In 2007, it joined the World Trade Organization. Despite encouragement from the Communist regime in Hanoi in the form of free admission and priority in government jobs, Marxism-Leninism studies have no takers in Vietnamese universities. While careers related to business, tourism and communication are increasingly attracting more students from across the country, Marxism studies, a key part of the Philosophy module, are not popular among Vietnam's materialistic youth, who are moving farther and farther away from the teachings of Marx, Lenin and the national hero Ho Chi Minh.

Figure 1 GDP Comparisons of China (Blue) with Other Countries



Questions:

- #1. Why does Marxism rely so greatly on the labor theory of value?
- #2. Why do we say that Marxism is more than an economic theory?
- #3. List the 4 flaws in Marxism that we discussed in the reading.

- #4. Do workers have a better life in Marxist economies than in market economies?
- #5. What does the term "secular eschatology" mean?
- #6. Can Marxism and a market system (especially a labor market) exist together?
- #7. Marx said that the rate of profit on capital would fall in market economies. Was he right?
- #8. China and Vietnam are embracing a market system? How are things going?