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THE NEXT THINKER

THE RETURN OF KARL MARX

A hundred and fifty years ago, he sat in the British Museum analyzing the problems of capitalism and the virtues of Communism. He was wrong about Communism. Was he right about capitalism?

BY JOHN CASSIDY

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EARLY this summer, I enjoyed a weekend at the Long Island vacation home of a college friend—a highly intelligent and levelheaded Englishman whose career has taken him (by way of the upper echelons of the British Civil Service and a financial firm in the City of London) to a big Wall Street investment bank. There he has spent the last few years organizing stock issues and helping his firm milk the strongest market in living memory. Between dips in his pool, we discussed the economy and speculated about how long the current financial boom would last.

To my surprise, he brought up Karl Marx. “The longer I spend on Wall Street, the more convinced I am that Marx was right,” he said.

I assumed he was joking.

“There is a Nobel Prize waiting for the economist who resurrects Marx and puts it all together in a coherent model,” he continued, quite seriously. “I am absolutely convinced that Marx’s approach is the best way to look at capitalism.”

I didn’t hide my astonishment. We had both studied economics during the early eighties at Oxford, where most of our teachers agreed with Keynes that Marx’s economic theories were “complicated hocus-pocus” and Communism was “an insult to our intelligence.” The prevailing attitude among bright students of our generation was that Marx’s arguments were fit only for polytechnic lecturers and aspiring Labour Party politicians (many of whom are now right-wing Blairites). In the years since, his reputation has fallen lower still: Moscow’s Institute of Marxism-Leninism is gone; the Chinese Red Army has retooled itself into a manufacturing business; even Fidel Castro is looking for outside investors. Nonetheless, I decided that if my host, with all his experience of

global finance, reckoned Marx had something worthwhile to say, perhaps it was time to take a look.

Gathering the material proved easy. Hardly anybody reads Marx these days, so secondhand bookstores are overflowing with moldy translations of "The Communist Manifesto" and "Das Kapital." Some of his earlier works are harder to come by, but I picked up a hefty volume of selected writings edited by the British scholar David McLellan, and it contained everything from a letter Marx wrote home from the University of Berlin in 1837 to correspondence with his fellow-socialists when he was an old man living on Haverstock Hill, in London. I took the books with me on my August vacation and nibbled at them on the beach—plums like "Theories of Surplus Value," "The German Ideology," and "The Eighteenth Brumaire of Louis Bonaparte."

More than fifty years ago, Edmund Wilson noted that much of Marx's prose "hypnotizes the reader with its paradoxes and eventually puts him to sleep." The passing decades have not made the going any easier. Marx was ludicrously prolix (even Engels complained that his chapters were too long) and often willfully obscure. His favorite mode of argument was, as he put it, "coquetting with modes of expression peculiar to Hegel," and many of his expositions are practically bereft of meaning. (Try deciphering at bedtime this sentence from "Surplus Value": "The determinate social character of the means of production in capitalist production—expressing a particular production relation—has so grown together with, and in the mode of thought of bourgeois society is so inseparable from, the material existence of these means of production as means of production, that the same determinateness—categorical determinateness—is assumed even where

the relation is in direct contradiction to it.") Not that Marx couldn't write. When he felt like it, he could compose simple declarative sentences that were, in Wilson's words, "dense with the packed power of high explosives." Parts of the "Manifesto" and "The Eighteenth Brumaire" are brilliantly written, and Marx's journalistic dispatches for Charles Dana's New York *Tribune* were eminently readable. Most of the time, though, Marx wrote as if parsimony and clarity were traps laid by the bourgeoisie for unsuspecting authors.

In spite of this, I gradually began to grasp what my friend had been talking about. In many ways, Marx's legacy has been obscured by the failure of Communism, which wasn't his primary interest. In fact, he had little to say about how a socialist society should operate, and what he did write, about the withering away of the state and so on, wasn't very helpful—something Lenin and his comrades quickly discovered after seizing power. Marx was a student of capitalism, and that is how he should be judged. Many of the contradictions that he saw in Victorian capitalism and that were subsequently addressed by reformist governments have begun reappearing in new guises, like mutant viruses. When he wasn't driving the reader to distraction, he wrote riveting passages about globalization, inequality, political corruption, monopolization, technical progress, the decline of high culture, and the enervating nature of modern existence—issues that economists are now confronting anew, sometimes without realizing that they are walking in Marx's footsteps.

THE MOOR, as Marx's children called him, because of his fearsome facial features, was born in the Rhineland city of Trier, which was then part of Prussia, in 1818. His father, a prosperous Jewish

lawyer who was a convert to Christianity, urged his son to study, and Marx didn't need much encouragement. In 1841, he got his doctorate from the University of Jena—his thesis dealt with the natural philosophies of Democritus and Epicurus—but his radical views prevented him from getting a university post, and for the rest of his life he drifted between journalism and left-wing politics. During the eighteen-forties, he lived in Bonn, Paris, and Brussels. In the revolutionary year of 1848, he moved back to Paris, then to Cologne, and, finally (after being thrown out of Prussia), to London, where he remained until his death, in 1883.

Like many thinkers, Marx did his most novel cogitating in his twenties and thirties, then spent decades expanding ideas that he had developed as a young man. His basic insight, which he introduced in "The German Ideology" (1846), was re-introduced in recent times by James Carville: "It's the economy, stupid." Marx's

own term for this theory was "the materialist conception of history," and it is now so widely accepted that analysts of all political views use it, like Carville, without any attribution. When conservatives argue that the welfare state is doomed because it stifles private enterprise, or that the Soviet Union collapsed because it couldn't match the efficiency of Western capitalism, they are adopting Marx's argument that economics is the driving force in human development. Indeed, as Sir John Hicks, a Nobel Prize-winning British economist, noted in 1969, when it comes to theories of history Karl Marx still has the field pretty much to himself. It is, Hicks wrote, "extraordinary that one hundred years after *Das Kapital* . . . so little else should have emerged."

Marx wasn't a crude reductionist, but he did believe that the way in which society organized production ultimately shaped people's attitudes and beliefs. Capitalism, for example, made human beings subju-

gate themselves to base avarice. "Money is the universal, self-constituted value of all things. It has therefore robbed the whole world, human as well as natural, of its own values," he wrote when he was twenty-five. "Money is the alienated essence of man's work and being. This alien essence dominates him, and he adores it." The language may be a bit strong, but has anything changed? The magazine racks are packed with titles like *Money*, *Smart Money*, *Worth*, and *Fortune*; it is difficult to turn on a television without hearing financial advice; and successful investors like Warren Buffett and George Soros are regularly lionized by the media.

The money-driven debasement of popular culture, epitomized by most of Hollywood's output, was also foreshadowed by Marx. In the "Grundrisse" (1857), he argued that the quality of the art a society produces is a reflection of the material conditions present at the time. Homer and Virgil reflected a naïve mythological view of nature, which wasn't sustainable in an age of machinery, railways, and electric telegraphs. "Where does Vulcan come in as against Roberts & Co.? Jupiter as against the lightning conductor? Hermes as against the Crédit Mobilier?" Marx asked. "What becomes of the Goddess Fama side by side with Printing House Square?" When these words were written, Dickens and Thackeray were writing for monthly magazines, most educated people had studied Latin, and capitalism hadn't yet demonstrated its ability to produce "The Jenny Jones Show."

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"THE COMMUNIST MANIFESTO," of which Marx was the co-author with Friedrich Engels, a fellow-Rhineland, whose father owned an interest in a factory in Manchester, almost didn't get written. Engels wrote a first draft in late 1847, but Marx, who was busy, sat down to complete it only after receiving a desperate plea from his colleagues in the Communist League. Perhaps because of this deadline pressure, his language was much natter than usual, and the final version, which appeared in February, 1848, contained some of his sharpest phrases: "A spectre is haunting Europe—the spectre of Communism," "The history of all hitherto existing society is the history of class struggles," "What the bourgeoisie produces, above all, is its own grave-diggers."

The book's misguided prophecies about capitalism's imminent demise have obscured a far more durable intellectual

achievement: Marx's explanation in the "Manifesto" of how capitalism works. Unlike many of his followers, he never underestimated the power of the free market. "The bourgeoisie, during its rule of scarcely one hundred years, has created more massive and more colossal productive forces than have all preceding generations together," he wrote. "It has accomplished wonders far surpassing Egyptian pyramids, Roman aqueducts, and Gothic cathedrals; it has conducted expeditions that put in the shade all former Exoduses of nations and crusades." Moreover, this unprecedented productive spurt, otherwise known as the industrial revolution, was not confined to any one country, since the ever-present need for new markets "chases the bourgeoisie over the whole surface of the globe." Wherever the bourgeoisie go, Marx said, they undermine traditional ways of doing things. "All old-established national industries have been destroyed or are daily being destroyed," he wrote. "They are dislodged by new industries, whose introduction becomes a life-and-death question for all civilized nations." It wasn't just local businesses that suffered. Entire cultures were swept aside by the relentless forces of modernization and international integration. "The intellectual creations of individual nations become common property," he noted. "National one-sidedness and narrow-mindedness become more and more impossible, and from the numerous national and local literatures, there arises a world literature."

"Globalization" is the buzzword of the late twentieth century, on the lips of everybody from Jiang Zemin to Tony Blair, but Marx predicted most of its ramifications a hundred and fifty years ago. Capitalism is now well on its way to transforming the world into a single market, with the nations of Europe, Asia, and the Americas evolving into three rival trading blocs within that market. John Grisham's novels are translated into dozens of languages, teen-agers in Australia wear Chicago Bulls caps, and almost everybody in business speaks English, the global language of money. Occasionally, some embattled group—French farmers, British miners, American autoworkers—puts up a fight for traditional interests, but its efforts always prove fruitless. Nothing can stop the permanent revolution that capitalism represents. "Uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones," Marx wrote.

"All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses his real conditions of life and his relations with his kind."

Globalization is set to become the biggest political issue of the next century. Richard Gephardt is already running for President on a "fair trade" platform, and populist, xenophobic parties are emerging in Russia, France, and many other countries. According to a recent World Bank study, Russia, China, India, Indonesia, and Brazil will all become major industrial powers within the next twenty-five years, and this will only increase the competitive pressures on other advanced nations. Even economists, who traditionally have been globalization's biggest defenders (on the ground that it creates more winners than losers), are now having second thoughts about its impact. Contemporary critics tend to use drier language than Marx did, but their message is similar. "The international integration of markets for goods, services, and capital is pressuring societies to alter their traditional practices, and, in return, broad segments of these societies are putting up a fight," Dani Rodrik, a Harvard economist, wrote in a path-breaking book, published earlier this year, entitled "Has Globalization Gone Too Far?" Rodrik pointed out that child labor, corporate tax avoidance, and shuttered

American factories are all features of globalization. He didn't mention Marx directly—citations of his work are not good for the career prospects of an Ivy League economist—but he concluded that failure to meet the global challenge could lead to “social disintegration.”

WHILE Marx was exiled in London, he had plenty of time to read. Each day, he trudged to the British Museum and stayed there from ten until seven, studying obscure government reports and classical economists, such as Adam Smith and David Ricardo. The museum's famous Reading Room was an escape from the domestic squalor in which he daily left his wife, Jenny; his three children; and their maid (who in 1851 gave birth to his illegitimate child). Until 1856, when Jenny inherited some money, they all lived in two cramped rooms, and they were usually broke. At one point, a bailiff arrived to collect five pounds, but Marx didn't have it, so the debt collector seized “beds, linen, clothes, everything, even my poor baby's cradle,” Jenny wrote to a friend. Marx, arrogant and crotchety even at the best of times, suffered from boils and piles, which occasionally prevented him from sitting in the British Museum (“I hope that the bourgeoisie, as long as they live, will have cause to remember my carbuncles,” he

wrote to Engels), but he never stopped working. Between 1848 and 1867, he published a number of economic works, culminating in "Das Kapital," which was, he said, an attempt to reveal "the economic law of motion of modern society."

In one way, Marx's efforts were a failure. His mathematical model of the economy, which depended on the idea that labor is the source of all value, was riven with internal inconsistencies and is rarely studied these days. Many of the constructs used by modern economists—such as supply-and-demand curves, production functions, and game theory—hadn't been conceived in the eighteen-sixties. A new textbook, "Principles of Economics," by N. Gregory Mankiw, a Harvard professor, mentions Marx just once in eight hundred pages, and that reference is pejorative.

Mankiw, quoting the turn-of-the-century economist Alfred Marshall, says that economics is "a study of mankind in the ordinary business of life," which answers questions like "Why are apartments so hard to find in New York City?" and "Why do airlines charge less for a round-trip ticket if the traveller stays over a Saturday night?" and "Why is Jim Carrey paid so much to star in movies?" Marx didn't dismiss such questions—although his labor theory of value was ill equipped to address them—but he considered them secondary to the real task of economics, which was to explain how society evolved over time.

One important lesson Marx taught is that capitalism tends toward monopoly—an observation that was far from obvious in his day—giving rise to a need for strong regulation. This problem subsequently seemed to have been taken care of by the reforms of Teddy Roosevelt and F.D.R., but the last decade has witnessed an unprecedented wave of mergers in sectors as diverse as entertainment, medicine, defense, and financial services. At the same time, budget cuts and conservative court rulings have undermined the effectiveness of government regulatory agencies, such as the Federal Trade Commission. Unless these trends are reversed, the inevitable result will be more mergers, higher prices, and fewer choices for consumers.

Marx's primary achievement as an economist was placing the entrepreneur and the profit motive front and center in the study of economic development. To the layman who reads the business pages, this may seem obvious, but it isn't obvious to professional economists. In neo-classical economics—the sort taught by

Mankiw—consumers are the main focus of attention, while firms are merely “black boxes” that transform raw material and labor into commodities that people want to buy. In the world envisioned by this theory, the economy grows at a pace determined by the expansion of the labor force and the rate of technical progress, which appears like manna from Heaven and is not governed by market forces.

Marx's view of economic growth was darker and more complex. In his model, capitalists were a beleaguered species, constantly under pressure from competitors trying to enter their markets and steal their profits. Given such pressure, firms had to cut costs by investing in labor-saving machinery, forcing their employees to work harder, and developing new products. This process, which Marx called “accumulation,” was the main reason that capitalism was so much more productive than previous social systems. In feudal times, the nobles consumed the economic “surplus” created by the peasants, but in the industrial society capitalists were forced to invest the surplus created by their employees or risk being swept aside by their rivals. “Accumulate! Accumulate! Accumulate! That is Moses and the Prophets,” Marx declared.

This vision of economic growth was largely forgotten by the economics profession after Marx's death, but it was resurrected in the nineteen-forties by Joseph Schumpeter, a former Austrian finance minister turned Harvard academic. He labelled it "creative destruction." In recent years, Schumpeter's work has been formalized by a group of eminent and mathematically inclined theorists, including Paul Romer, of Stanford, and Philippe Aghion, of the University of London. Economists working in this field, which calls itself endogenous-growth theory, usually fail to credit Marx as their intellectual forefather (to do so would invite ridicule), but their models are undoubtedly Marxist in spirit, since their main aim is to demonstrate how technical progress emerges from the competitive process, and not from Heaven, as in the neoclassical model.

Marx's version of free enterprise also chimes with the views of many contemporary businessmen, who would rather be flogged than labelled Marxists. In the nineteen-eighties, for instance, Jack (Neutron Jack) Welch, Jr., the flinty but highly respected chairman of General Electric, transformed the company, closing down

dozens of plants and firing tens of thousands of employees. The reasons he did so would have been familiar to any reader of Marx. "The events we see rushing toward us make the rough, tumultuous eighties look like a decade at the beach," Welch said at a shareholders' meeting in 1989. "Ahead of us are Darwinian shakeouts in every major marketplace, with no consolation prizes for the losing companies and nations."

IN 1881, Jenny Marx died. Marx never got over the loss—"The Moor is dead, too," he said to Engels—and two years later he followed his wife to the grave. At his funeral, Engels eulogized him in a way that Marx would have liked, declaring, "Just as Darwin discovered the law of evolution in organic nature, so Marx discovered the law of evolution in human history." This wasn't quite true, but it wasn't altogether false. Capitalism certainly wasn't succeeded by Communism, but, just as certainly, it didn't survive in the Dickensian form that Marx had witnessed. During the century following his death, governments in industrialized countries introduced numerous reforms designed to improve the living standard of working people: labor laws, minimum-wage legislation, welfare benefits, public housing, public-health systems, inheritance levies, progressive income taxes, and so on. These ameliorative measures would have been labelled "socialism" in Marx's day; indeed, he prescribed many of them in the "Manifesto," and it is difficult to see how capitalism could have survived without them.

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It is only in the past two decades that a systematic assault on social democracy has been carried out in the name of "economic efficiency." This right-wing backlash has produced a sharp upsurge in inequality, just as Marx would have predicted. Between 1980 and 1996, the share of total household income going to the richest five per cent of the families in the country increased from 15.3 per cent to 20.3 per cent, while the share of the income going to the poorest sixty per cent of families fell from 34.2 per cent to 30 per cent. These changes represent an unprecedented redistribution of resources from poor to rich—each shift of one per cent represents about thirty-eight billion dollars.

Marx believed that the fundamental divide in any society is between the people who own the machinery and the factories used to make commodities (the

“bourgeoisie”) and the people whose only marketable asset is their capacity for work (the “proletarians”). This split is too rigid—it doesn’t account for self-employed people, public-sector employees, and workers who own shares in their employer’s firm—but there is no doubt that the biggest winners, by far, during the past two decades have been the people who control the means of production: chief executives and shareholders. In 1978, a typical chief executive at a big company earned about sixty times what a typical worker earned; in 1995, he took home about a hundred and seventy times as much. Shareholders have also done fabulously, and this has accentuated the increase in inequality. According to Edward Wolff, a professor of economics at New York University, half of all financial assets in the country are owned by the richest one per cent of the population, and more than three-quarters of them are owned by the richest ten per cent. A Federal Reserve Board survey shows that six in ten American families still own no stocks whatever, either directly or via 401(k) pension plans. And most families who do own stocks have total holdings worth less than two thousand dollars.

These figures suggest that one of Marx's most controversial ideas, the "theory of immiseration," may be making a comeback. He didn't believe, as some critics suggest, that wages could never rise under capitalism, but he did say that profits would increase faster than wages, so that workers would become poorer relative to capitalists over time, and this is what has happened during the last two decades. Inflation-adjusted average hourly wages are still below their 1973 levels, but profits have soared. In 1979, sixteen per cent of all the money produced by the corporate sector went to profits and interest; today the figure is twenty-one per cent.

A key question for the future, the answer to which will determine the fate of the soaring stock market and much else, is whether capital can hold on to its recent gains. The United Parcel Service strike and the raising of the minimum wage both suggest that workers are starting to recover some losses, but their bargaining power is limited, because many firms can easily relocate to countries where labor is cheaper. Marx, for one, had no doubt which side held the upper hand. "The worshipful capitalists will never want for fresh exploitable flesh and blood,

and will let the dead bury their dead," he noted in "Wage-Labour and Capital."

HIGHGATE CEMETERY is just a short stroll from the bijou urban village of the same name in north London. To get there, you stroll past a row of designer stores and a bunch of English schoolchildren in blue-and-gray uniforms, turn left down a narrow lane, pass some tennis courts, and turn left again at a set of tall black gates. There to meet you is an elderly English lady named Kathleen, who is clad in a tweed skirt, a woolly sweater, and sensible shoes. With her strangled vowels, she might have just stepped out of an Agatha Christie novel. One afternoon last month, I took the bus from central London to Highgate and walked down to the cemetery to see her.

"Do many people come to visit Marx these days?" I asked as I handed over the admission fee of two pounds (one for entry, the other for a map of the graveyard).

"Oh, yes, some do, but I can't say why," Kathleen replied. "We've got a lot more interesting people here, you know. George Eliot, Sir Ralph Richardson. Are you sure you don't want to see them?"

I said I was sure, and Kathleen reluctantly directed me down a path to the cem-

etery's northwest corner, where I found a large marble tombstone topped with an imposing statue of Marx's head and the inscription "Workers of all lands unite." There were fresh flowers next to the grave, but only three people: two bearded students from Turkey and a young woman from South Korea who said she was a socialist. All were in London studying English.

"Marx is very big in Turkey, although Communism is illegal," one of the Turks told me. He added that he had been imprisoned briefly in Ankara for his socialist activities. He and his friend were tickled to be smoking Camels in front of Marx's grave.

I asked the visitors whether they had read any of Marx's works—"Das Kapital," in particular.

The young South Korean socialist said she hadn't.

"I tried it, but it is very big," the Turk who had been arrested volunteered.

"I started it, but I didn't understand it," his friend said.

We talked for about twenty minutes, and then I made my way back to Kathleen and asked her if Highgate was still a working cemetery. (It is. Rod Stewart's parents are buried there.) On the bus for central London, I wondered again

why Marx is so little read these days.

Maybe it is because the economy is doing well, but even in good times he has lessons to teach us, such as the fact that raising workers' living standards depends on maintaining a low rate of unemployment—something that many orthodox economists denied until recently. Marx believed that wages were held down by the presence of a "reserve army" of unemployed workers who attempt to underbid the employed. Reduce the ranks of this army, he said, and wages would rise—just as they have started to do in the last year. Since the middle of 1996, the unemployment rate has averaged about five per cent, its lowest level in twenty-four years, and inflation-adjusted median hourly wages have risen by 1.4 per cent, their first appreciable rise in almost a decade.

Perhaps the most enduring element of Marx's work is his discussion of where power lies in a capitalist society. This is a subject that economists, with their fixation on consumer choice, have neglected for decades, but recently a few of them have returned to Marx's idea that the circumstances in which people are forced to make choices are often just as important as the choices. (Take the case of a robbery victim who is given the "choice" of handing over his money or being stabbed.) At

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Harvard, for example, Oliver Hart has developed a new theory of how firms operate which depends on the power struggle among shareholders, managers, and workers. Other economists are looking critically at the exercise of political power. Elhanan Helpman, another Harvard professor, and Gene Grossman, of Princeton, have constructed a formal model illustrating the way that the government is encouraged to introduce damaging trade policies by pressure from rival business lobbyists.

Marx, of course, delighted in declaring that politicians merely carry water for their corporate paymasters. "The executive of the modern State is but a committee for managing the common affairs of the bourgeoisie," he wrote in the "Manifesto," and he later singled out American politicians, saying they had been "subordinated" to "bourgeois production" ever since the days of George Washington. The sight of a President granting shady businessmen access to the White House in return for campaign contributions would have shocked him not at all. Despite his errors, he was a man for whom our economic system held few surprises. His books will be worth reading as long as capitalism endures. ♦