

The Legacy of Marx

by Henry Hazlitt

A number of women (and men) have recently been contending that women who are just as productive as men are being employed on the average for only about 70 percent as much pay, and that the statistics prove it.

I am not going to quarrel with the comparisons of men's and women's actual wages, but with the contention about productivity. In a market in which competition is permitted between employers and between workers, the situation ascribed could not long exist. What would prevent it, what does prevent it, is the selfishness of employers.

Let us suppose that there was an industry in which both male and female workers were producing enough to bring the employer an ascertainable added profit of just over \$10 an hour, but in which the men workers were receiving \$10 an hour, and the equally productive women workers only \$7 an hour.

It would soon occur to an unscrupulously selfish employer that he should henceforth employ only women workers from which he could make a net \$3 more an hour than from his male workers. He would let his men workers go. Other employers would follow his example, and for the same reason. But this would mean that the female workers would start demanding higher individual wages until their pay was on an equality with that previously received by males.

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In other words, selfish employers would prefer to make only \$2 an hour net by employing female labor at \$8 an hour rather than see competing employers make \$3 net out of them. They would even choose to make only \$1 an hour net by paying them \$9 an hour rather than stand by and watch other employers making \$2 net out of them. This would continue until prevailing female wages in that industry were very close to female labor productivity in dollar terms. (In the long run, of course, there would be no drop in the prevailing men's pay, because their productivity would still make it profitable to employ them at that rate.)

To state this more briefly and bluntly, any employer would be a fool to hire male workers for \$10 an hour when he could hire equally productive women workers for \$7 an hour.

There are, it is true, special conditions, temporary and localized, in which labor productivity might not be the dominant factor in determining wage levels. In a small mill town, for example, in which there was only one mill, not large enough to employ the entire working population, the wages paid by that mill might fall below the worker-productivity level. But this would tend to prove only a temporary situation. Two developments would be likely to change it. The unemployed surplus workers would start to leave for other towns. And the mill owners would be tempted to reinvest their profits and expand their operations.

So far, I have been writing about the factors that tend to eliminate wage discrimination on sexual grounds where it exists. But the same considerations would also tend to eliminate wage discrimination on grounds of color, race, nationality, or other reasons. Where such wage differences persist, they tend to reflect real differences in productivity.

Let me now carry my contention a giant step further. The selfishness of individual employers is the force that, under competitive capitalism, brings the level of wages up close to the full value of the productivity of the workers.

Of course, there are never conditions of perfect competition; of full knowledge on both sides, employer and employed, of their respective opportunities. There are individual accidents, immobilities, prejudices, and other factors that prevent everybody's wage or salary from corresponding with the approximate value of his or her contribution or output. But this correspondence is the dominant long-run *tendency*.

There is nothing original in this explanation. I have simply been stating, in fact, in an unusual form, what is known as the marginal-productivity theory of wages. This is the theory held by the overwhelming majority of serious economists today.

The Marginal-Productivity Theory of Value

This theory was astonishingly late in its development. It did not make its appearance until the very end of the nineteenth century, in the principal works of the Austrian economists Carl Menger (1871), Friedrich von Wieser (1884), and Eugen von Böhm-Bawerk (1884), and of the American economist John Bates Clark (1899).

Why did its development take so long? It took so long partly because the field was already occupied by other theories—wrong theories. And how did they in turn get started? They got started partly through the errors of writers that were in some respects acute and even profound thinkers. The first of these was the economist David Ricardo

(1772–1823), who, by abstract reasoning, developed a labor theory of value in which the contributions of capital investment, initiative, invention, and management somehow got buried.

Then, along came Karl Marx. Ostensibly taking off from Ricardo, he presented a pure “exploitation” theory of wages, and declared outright that as long as the “capitalist system” continued in existence there could be no real improvement in the condition of workers.

This assertion was made in the face of some very noticeable improvement in the economic condition of the “masses” before 1848, when the *Communist Manifesto* was published, and certainly in the remaining 35 years of Marx's life.

Doubtless there was some excuse for Marx's failure to notice this improvement. In the early years of his life some relics of the medieval system were still around. Great tracts of land were still held by princes, dukes, and barons, and the men who tilled the soil were often forced to pay excessive rents. Production was by our present standards incredibly low. Capital goods—tools, implements, machinery, vehicles, and other equipment—were still rare, crude, and primitive. There was a scarcity of donkeys, horses, and other farm animals. On the farms, human beings were forced to carry great burdens on their own backs, as they still do in China today. Only very slowly were more capital goods produced. The great bulk of labor went into producing tomorrow's food and other necessities.

But let us now turn to the actual text of the *Communist Manifesto*. That document, of approximately 40 pages, was written by Karl Marx and Friedrich Engels partly as a call for civil war—“Working men of all countries, unite!”—partly as propaganda, and partly to explain the economic theories of Communism to the workers. But the reader will look in vain to find those theories spelled out in any reasoned form.

We are told that there are two main classes in society—the “proletariat,” which consists of the “workers,” employed and unemployed, and forms allegedly about

nine-tenths of the population, and the “bourgeoisie,” which consists of the employers and a few other groups who are comfortably well off. The bourgeoisie rule. They hire the proletariat; and because they do, they necessarily “exploit” them. The only way this dreadful situation can be changed is by revolution, in which the proletariat must seize all the property of the bourgeoisie, and, if they object, kill them.

The Marxist Exploitation Dogma

No explanation is offered in the *Manifesto* of how this “exploitation” is possible, or what is its exact extent. The word implies that the employers pay their workers only a fraction of what they are worth—of what they add to production or profits. The fraction is not mentioned. Let us say it is only 50 percent. As individual employers would be making such a big profit at that rate, and would obviously want to hire workers away from other employers, what stops them? The exploitation theory implies that the employers must all be in some secret agreement to keep wages down to this existing near-starvation level, and maintain it through the most drastic penalties against humane employers, if any, who attempt to offer more. “The average price of wage-labor is the minimum wage, i.e., that quantum of the means of subsistence which is absolutely requisite to keep the laborer in bare existence as a laborer.”

All this is pure fiction. The exploitation theory implies that the wage level cannot rise. In trying to maintain this, the *Manifesto* quickly falls into inconsistencies and self-contradictions. We are told that: “The bourgeoisie, by the rapid improvement of all instruments of production . . . draws even the most barbarian nations into civilization. The cheap prices of its commodities are the heavy artillery with which it batters down all Chinese walls. . . . The bourgeoisie, during its rule of scarce one-hundred years, has created more massive and more colossal productive forces than have all preceding generations together,” with “whole populations conjured out of the ground.”

But this enormously increased production could not have been possible without equally increased consumption. The increased population that the increased production made possible must have consisted mainly of the proletarians, and the increased production itself could only have taken place in response to an increased demand. This demand must have been made possible by increased purchasing power, and that in turn either by increased wages or lower prices. But nowhere in the *Manifesto* is this necessary chain of causation acknowledged. The exploitation dogma blinded Marx to the obvious.

The *Manifesto* keeps compounding its economic errors. Obviously capital—which is most usefully thought of as capital goods—is used because it increases production. And because it increases production, it must increase the income of the owner or user. The carpenter would get nowhere without the use of hammers, saws, chisels, and even more elaborate machinery. And so for all other artisans. These tools and machines must at least promise to “pay for themselves” before they are acquired.

Yet we find the authors of the *Manifesto* writing: “In proportion as *the use of machinery* and division of labor *increases*, in the same proportion the burden of toil *increases*, whether by prolongation of the working hours, by increase in the work exacted in a given time, or by increased speed of the machinery, etc.” (My italics.) Even if the reduction in weekly working hours recorded through the years did not show this *Manifesto* statement to be false, it was nonsense on its face. Yet Marx and Engels go on: “Machinery obliterates all distinctions of labor, and *reduces* wages to the same level!” (My italics.)

The Historical Record

From the 1830s on, however, the historic record shows a reduction of hours and an increase of wages from the introduction of machinery. Prof. W. H. Hutt, in his essay on *The Factory System of the Early Nineteenth Century*, writes: “That the apparent benefits

wrought by the early Factory Acts are largely illusory is suggested by the steady improvement which was undoubtedly taking place before 1833, partly as a result of the development of the factory system itself" (*Capitalism and the Historians*, edited by F. A. Hayek, p. 181).

Tooke and Newmarch, in their book *A History of Prices From 1792 to 1856*, publish extracts from a report issued by the City Chamberlain of Glasgow in 1856. This records that in 1856 wages of skilled labor in the building trades (masons, carpenters, and joiners) increased 20 percent from the level of 1850–1, and wages of unskilled labor 48 percent in the same period. He attributes this principally to "increased production in consequence of improvements in machinery."

"It must also be borne in mind," he adds, "that weavers and spinners worked 69 hours per week in 1841 and only 60 hours in 1851–6, and hence received in 1851–6 more money for less labor." He also notes at another point that in 1850: "The number of hours per week worked by masons, carpenters and other artisans employed in the building trades was 60 hours, or six days of 10 hours each, with a deduction of 1½ hours for meals. Since 1853, the weekly time has been reduced to 57 hours."

For the United States (which seems to have lagged greatly behind England), the official publication, *Historical Statistics of the U.S.: Colonial Times to 1957*, reports (p. 90) that in 1860, the weighted average of working hours in all industries was 11 hours a day (Monday through Saturday inclusive), and that by 1891 this had fallen to 10 hours. In 1890, the working week was 60 hours (6 times 10 daily) and by 1926 had fallen to 50.3.

Recent issues of government publications, the annual *Statistical Abstract* and the current monthly *Economic Indicators*, show that the average of manufacturing hours fell from 51 a week in 1909 to 39.8 in 1957 and to 35 in 1985. Thus average working hours per week under capitalism, in other words, show a steady fall for nearly a century and a half.

In the *Manifesto*, our two authors mention frequently how "the competition between the workers" undermines solidarity and reduces wages. But they never once acknowledge the existence of competition among employers for workers. It is precisely this that brings wages up to the value of the workers' specific contribution to output. And this is not because the employers have or need to have any altruistic motives, but simply the motive of maximizing their own individual profits.

The Ominous Appeal of Hatred

Karl Marx must himself later have felt a great deal of misgiving about the lack of any real explanation of the maleficent workings of the existing economic system that he had portrayed in the *Manifesto*. For in 1867 he published (in Germany) a volume entitled *Das Kapital*. This was apparently intended to be the first of further volumes, but though Marx lived to 1883, nothing more appeared. Some commentators have surmised that Marx had reached an impasse, and could not decide how to continue. After Marx died, Engels undertook to "complete" the work in three volumes by supplementing his friend's unfinished manuscripts. The Austrian economist Eugen von Böhm-Bawerk thoroughly demolished the argument of the finished work in his *Karl Marx and the Close of His System* (1896), a masterful refutation that does not have to be done again.

Let me remind the reader once more that the thesis with which I began this piece—that the assumption of pure selfish competition on the part of the employers would be enough to explain how workers on the average receive practically the full value of their productive contribution—is only a novel way of presenting the marginal-productivity theory of wages, now accepted by the overwhelming majority of present-day economists.

The factual substantiation of that theory is particularly impressive in the United States. The annual reports of nonfinancial corporation earnings, going back for more than thirty years, show that the employees today receive an average of about 90 percent of

corporate gross earnings in their wages and the stockholders only about 10 percent in their profits. In fact, a man's personal income often seems to have little to do with whether he is technically an employee or an employer. A baseball, football, basketball, or prize-fighting star may receive an income in the million-dollar range, far above that of the promoter who technically employs him. It is a result of the star's "productivity"—his box-office appeal. It is the competition among promoters, employers, that brings this about.

Selfish Capitalists vs. the *Communist Manifesto*

From the standpoint of common sense, the appeal of the *Manifesto* to violence and class war seems entirely needless. If the proletariat (supposedly some nine-tenths of the population) would be better off under a Communist economy, all that was necessary was to make this clear to them, and they could be trusted to vote themselves into power and such an economy into being. (Democracy was emerging in Britain in 1848, and, for whites, already functioning in America.)

But such an appeal gave little promise of starting a "movement" or leading to early political action. Marx and Engels were agitators, activists—and shrewd psychologists. They knew that most people who find themselves at the bottom of the economic ladder are tempted to put the blame, not on themselves, but mainly on somebody else. The exploitation theory, however weak as an economic doctrine, was tremendously persuasive psychologically and as a call for

action. It was an essential part of their propaganda.

So, though the *Communist Manifesto*, even in its own time, failed completely as an economic guidebook, it did succeed thoroughly in instilling class hatred. This hatred, unfortunately, has been its most permanent contribution. It was originally directed ostensibly against a special class, the bourgeoisie—the employers, and all those comparatively well off—in revenge for "exploiting" the workers.

But, with the passing years, the target of this hatred has been quietly changed. As the employing class in Russia was liquidated by various means, a still existing group had to be substituted. To stay in command, a dictatorship must continue to point to a powerful enemy to be feared and destroyed. Fortunately, such an enemy can still be pointed to. It is the "capitalist" nations as a whole, especially the United States. Sixty-eight years after the Bolshevik Revolution, most of the American population is notably better off than the population in the Soviet Union. Though Russian school children are taught that we are an "imperialist" nation, the American "proletariat" are now tacitly included, as the Russian "bourgeoisie" once explicitly were, among the people to be envied and somehow blamed for the plight of the Communist-ruled countries.

This newly directed fear and hatred are ominous. They have led to an enormous armament buildup in Russia, and to the development and storage of multiple nuclear weapons which are forcing the West to try to keep uneasy pace. None of us can foresee the ultimate outcome. □