

# Marxism as a Capitalist Tool

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## Abstract

Just as the two sides in the Cold War agreed that Western Capitalism and Soviet Communism were "the" two alternatives, so the two sides in the intellectual Great Debate agreed on a common framing of questions with the defenders of capitalism taking one side and Marxists taking the other side of the questions. From the viewpoint of economic democracy (e.g., a labor-managed market economy), this late Great Debate between capitalism and socialism was as misframed as would be an antebellum 'Great Debate' between the private or public ownership of slaves. Even though the Great Debate between capitalism and socialism is now in the dustbin of intellectual history, Marxism still plays an important role in sustaining the misframing of the questions so that the defenders of the present employment system do not have to face the real questions that separate that system from a system of economic democracy. In that sense, Marxism has become the ultimate capitalist tool.

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## Introduction

The late "Great Debate between Capitalism and Socialism" was misframed from the viewpoint of those who advocate an economic democracy. An *economic democracy* is a private property market economy where the contract to rent people (the employment relation) is abolished, where the democratic principle is applied to the workplace so that the legal members of each firm are the people who work in it, and where the assets and liabilities produced in the firms are thus privately appropriated by the people who create them in accordance with the standard principle

of imputing legal responsibility in accordance with *de facto* responsibility (i.e., the modern treatment of the labor theory of property) [see Ellerman 1992]. From the viewpoint of economic democracy, the capitalism-socialism debate was a debate between private and state capitalism (i.e., the private or public employment system), and the debate was as misframed as would be a debate between the private or public ownership of slaves.

The purpose of this paper is to briefly outline the role of Marx and Marxism in sustaining the bogus framing of the Great Debate. We might begin with the connection, if any, between Marx's value theory and the modern treatment of the labor theory of property as the application to production of the standard juridical principle of imputing legal responsibility in accordance with *de facto* responsibility.

### **Marx and the Modern Labor Theory of Property**

In Marx's labor theory of value (LTV) [1967], was he a precursor to the labor theory of property (LTP)? There are two versions of what might be called broadly "the labor theory of value," labor as the *measure* of (surplus) value and labor as the *source* of (the value of) the product. The LTV follows the measure theory while the LTP can be seen as a development of the "source" theory. And in the source theory, "value" actually plays *no role whatsoever*. The point is that labor is the sole responsible factor ("source" in that sense); things cannot be responsible for anything. Thus Marx and the LTP can be seen on different branches of the "labor theory" tree, but it is something of a stretch to see Marx as taking the LTP branch and certainly few latter-day Marxists have taken that path.

Indeed, many seem to have adopted Marxism as a sort of counter-identity and, intellectually, they are like the blind men each holding a different part of the elephant. In particular, few have any clue about the LTP. For instance, the whole episode with matrix-Marxism by the Morishima School [1973] had no connection to LTP. The system based on renting people is "a" private property system just like the prior system based on owning other people. But the renting-people system can hardly claim to be "the" private property system since people do not appropriate the positive or negative fruits of their labor insofar as they work in the "employee" role. Anyone who was a Marxist largely for identity reasons could hardly bring himself or herself to talk, like Proudhon, in terms of purging the private property system of injustice by abolishing the employment relation. That sounds so "bourgeois" and for identity-Marxists, how something "sounds" is all important.

The most direct precursors to the LTP were the "small band" of classical laborists (or so-called "Ricardian socialists") such as Hodgskin [1823], Thompson [1824], and Proudhon [1840]. However, they were blown off the conventional intellectual map by Marx who took the discourse in a rather different direction (barely related to the LTP). Anton Menger's (Carl Menger's brother) 1899 book: *The Right to the Whole Produce of Labour: The Origin and Development of the Theory of Labour's Claim to the Whole Product of Industry*, goes over that history.

In political terms, the precursors of the democratic economy would look back more to the guild socialists and libertarian left than to *any* version of Marxism. The relevant intellectual history is in the historical democratic and anti-slavery movements [Ellerman 1992, 2005]. That intellectual history also uncovers the true intellectual precursors of the employment system who erected a

theory of non-democratic government and of slavery based on explicit or implicit voluntary contracts.

## **Marx and Marxism as Capitalist Tools**

It is rather hard to coherently defend the economic system based on the renting of people, the employment system, once the questions are correctly framed, not in terms of "private ownership of the means of production," but in terms of the employment contract to rent human beings, the violation of democratic principles in the workplace, and the violation of the standard responsibility principle in the appropriation of property in production based on the employment contract. Capitalist apologetics proceeds not by even trying to address these questions but by using a rather different framing of the questions. The most remarkable aspect of the "Great Debate" about the system is that Marx accepted the capitalist-apologetics' bogus framing of the questions and then took the other side of the pseudo-questions. Thus Marx and Marxism have somewhat inadvertently become an essential part of the apologetics for the "capitalist" system by agreeing to the bogus framing of the issues. Here are the major examples of huge favors Marx did for capitalist apologetics.

### ***1) "Capitalism is based on private property rights."***

Of course, the employing class would like one and all to accept that their right to govern in the workplace was part and parcel of their private property rights in capital so that any attenuation of that right would be an attack on private property. Rather than showing how those governance rights are creatures of the employment contract (the master-servant relation), Marx did capitalist apologetics *a huge favor* by accepting their argument that those rights were part of the "private ownership of the means of production." Accordingly, Marx then concluded that such private property had to be overthrown. Capitalist apologists couldn't ask for a better "opponent."

While Marx shares responsibility by having given his imprimatur, the idea goes back to older notions of land ownership. In feudal times, the governance of people living on land was taken as an attribute of the ownership of that land: "ownership blends with lordship, rulership, sovereignty in the vague medieval *dominium*,...." [Maitland 1960, 174] The landlord was Lord of the land. As Gierke put it, "Rulership and Ownership were blent" [1958, 88]. Marx carried over that idea to his analysis of capital in capitalism. The command over the production process was taken as part of the bundle of capital ownership rights.

It is not because he is a leader of industry that a man is a capitalist; on the contrary, he is a leader of industry because he is a capitalist. The leadership of industry is an attribute of capital, just as in feudal times the functions of general and judge were attributes of landed property. [Marx 1967, 332]

Marx was simply wrong. It only takes a few seconds to expose the error by considering the theoretical possibility within the capitalist system of labor hiring capital. Then the capital owners still have their ownership but they do not have the discretionary control rights over the production process using their capital assets. Thus in normal capitalist production, the employer's legal right of discretionary control over the actions of the workers is legally based on the employment contract, not the simple ownership of capital assets. Such "rulership" is not blended

with or part of the ownership of capital assets. Asset ownership by itself only gives the owner the legal right to make the worker a trespasser. This idea that "rulership" is part of capital ownership has become so widely accepted that it could be called the "fundamental myth" of the capitalist system.

Marx's "ownership of the means of production," indeed Marx's notion of "capital," involves the fundamental myth. By "capital" Marx did not simply mean financial or physical capital goods; he meant those goods used by wage labor with private ownership of the means of production. Otherwise, "capital" becomes just the "means of labor." In short,

Marx's "capital" = "means of labor" + "contractual role of being the firm."

If one wishes to use the word "capital" in that Marxian sense, then one gives up being able to talk about the "ownership of capital" since there is no "ownership" of a contractual role. But Marx continued to talk about "capital" (in the sense that includes residual claimancy) as being owned in a linguistic move that might be called a "semantic straddle."

There is a similar ambiguity in the common language notion of "owning a factory." There is the ownership of factory buildings (and the ownership of corporations with such assets), but there is no "ownership" of the going-concern aspect of *operating* a factory as that is a contractual role in a market economy. By using the same phrase "owning a factory" to straddle both meanings, one could seem to have an argument that the contractual role of operating a factory was "owned." For instance, when it is argued to many economists today that "owning the factory" (in the sense of operating it) is a contractual role, not an extra owned property right, a typical response is: "Yes, but it is that role which I call the 'ownership' role." After thus redefining "ownership" as a contractual role, they then straddle back to the old meaning and talk of it as a property right. Those are some of the thought patterns in both Marxist thought and in orthodox economics that sustain the fundamental myth that "capitalism is based on private property rights."

## **2) "The basic question is: consent versus coercion."**

Capitalist apologetics would also like to present the basic question as the classical liberal contrast of consent versus coercion. According to the liberal-version of intellectual history, autocracies and slavery were overthrown because they were based on coercion (liberals put the whole contractarian apologia for those systems down the memory-hole), while capitalism is based on a voluntary contract, the labor contract, and thus it cannot be compared to those older systems. Instead of criticizing that whole bogus framing of the question, Marx again did capitalist apologetics *a huge favor* by accepting the consent-vs.-coercion framing of the question and then arguing on various grounds that the labor contract was not "really" voluntary—as if it would be acceptable if it was really voluntary.

Marx and his tradition seem to have no intellectual access to the inalienable rights critique of the contract to rent persons, namely that the contract puts a person into the legal role of a non-responsible thing. A person cannot voluntarily and for any amount of money actually turn themselves into a part-time "talking instrument" although the legal authorities can play along with the institutional fraud by saying that they will count *obeying the master* as "fulfilling" the

contract (at least as long as the actions are non-criminous). This inalienability-of-personhood critique is completely independent of the degree of voluntariness with which a worker signs onto playing the “employee” role or the amount of money that is paid (which is why “exploitation” theories of either the Marxist surplus value or neoclassical marginal productivity sort are as irrelevant to the debate as the daily caloric intake of the slaves was to the older debate about slavery).

Again Marx was heaven-sent for capitalist apologetics who can correctly point out that, by any juridical standards, the employment contract is voluntary (indeed, a collectively bargained labor contract is surely more voluntary than the contracts of adhesion that consumers usually have for consumer goods). And they can point out that while wages could be exploitatively low and employers abusive, there is now labor legislation in place so that rented people are now much better treated in today’s regulated liberal capitalism than in the “exploitative Manchester capitalism” of Marx’s day. But apologists would give Marx a pat on the head for his heart-felt concern for the wages and working conditions of the employees of his day, and the reformers of the 20<sup>th</sup> century would get a pat on the back for the labor relations legislation to stop those abuses.

### **3) "*Value theory is the intellectual battleground to analyze capitalism.*"**

In the writings of the so-called Ricardian socialists or classical laborists, one sees the “labor theory” as being somewhat ambiguous between the value-theoretic and property-theoretic interpretations although the property interpretation was clearly predominant. One may not expect orthodox economists to read the classical laborists' books and find the property interpretation, but they need only read the titles of the books to discern that the focus is on property rather than value. Proudhon’s main book [1970 (1840)] was not entitled “*What is Value?*” and Hodgskin’s main book [1832] was: *The Natural and Artificial Right of Property Contrasted*.

Which way did capitalist apologetics want to pose the question? Clearly as a value (price) theory. Marx did capitalist apologetics another *huge favor* by accepting value theory as the field of intellectual battle and then developing the “labor theory” as a labor theory of value. This whole line of thought ended up with the whimper of the matrix-Marxism of Morishima [1973] and company [e.g., Wolfstetter 1973] whose “fundamental theorem” was that the rate of exploitation was positive if and only if the rate of interest was positive, i.e., an Aristotelian interest-grumble gussied up in modern clothing. How Samuelson [1971], Baumol [1974], and other neoclassicals *loved* that “debate” with the “critics” of capitalism. It seems as long as one can dredge up some Marxists to play the Marxist “dancing bear” role, then there is no reason to let the “Great Debate” stray outside the bogus framing of the issues that is fully accepted by Marxism.

### **4) "*Inalienable rights!? Nonsense on stilts!*"**

In spite of the intellectual history of the inalienable rights critique of the individual slavery contract and the political *pactum subjectionis* in the abolitionist and democratic movements, Marx understood none of this and worked within the liberal framing of the consent-vs.-coercion question. Within that framing, the inalienability critique of a fully voluntary contract has no role, and here again Marx did a *huge favor* for capitalist apologetics accepting their 'neglect' of the inalienable rights tradition.

In view of the record of modern scholars to ignore the dark side of contractarian theories in the past (e.g., implicit-contract defenses of non-democratic government and slavery), perhaps I should not hold Marx to such high standards. For instance, the modern contractarian thinker, John Rawls [1971], could go through his whole life writing about “justice” while living in a system based on the renting of human beings and yet never even raise any question about the inherent nature of the person-renting contract.

But the point is that the critique was quite explicit in Hegel [1967 (1821)], and I trust I am not holding Marx to excessively high standards to hope that he might see the argument in Hegel. Hegel’s argument was in the context of the critique of voluntary slavery contract but even Hegel realized that it was so strong that it would also apply to the rental contract so he added some mumbo-jumbo to try to separate the contracts [1967, §67]. Perhaps personhood can be voluntarily alienated for 8 hours a day or for weeks or months or years but not for a working lifetime, i.e., perhaps the “particular” is alienable but not the “universal”!

**5) "Democracy is only relevant in the public sphere; capitalist enterprises are private."**

There is another confusion about the “public” sphere. After the triumph of political democracy in the mid-19<sup>th</sup> century, the earlier vague line between public and private became a bright line to separate the “public sphere” from the “private sphere” and to quarantine the democratic germ in the public sphere.

Instead of challenging the capitalist premise that “democracy” was only a thing for the public sphere while enterprises were private, Marx and the so-called “democratic” socialist tradition accepted that dichotomy and then concluded that enterprises could only be made “democratic” by making them publicly owned. Thus state capitalism in a political democracy was seen as “democratic socialism.” Again Marx and the “democratic” socialist tradition did a *huge favor* for capitalist apologetics by accepting the quarantining of the democratic principles in the “public sphere” and then arguing that economic enterprises (or at least the large ones in the "commanding heights" of the economy) should be moved to the “public” side of the ledger and thus made “democratic.”

For instance, the Yugoslav theory was totally confused on this point. Instead of rethinking the “ownership of the firm” concept, they simply thought in terms of “social ownership” rather than “private ownership.” Hence they recently accepted the capitalist view that “privatization” entailed capitalist firms rather than finally turning the firm into a democratic organization. Today much of the democratic left is still hopelessly confused on this point. Many think the flaw in state socialism was that the state was too big, bureaucratic, and distant; municipal socialism or “community control” would be the solution.

Many who argue that big corporations should be “democratized” have no clue about LTP or inalienable rights theory, and only argue that since big corporations are in some sense “social” they should fall in the “public sphere” and thus be in some sense subject to “democratic” control. This is like an “abolitionist” arguing that big slave plantations were inherently “social” and thus should be held accountable to public standards, not like some dark private abode where the master would be unchecked. Again Marx played into the hands of capitalist apologetics by

accepting the public-vs.-private framing of the question, and by arguing for public rather than private ownership of the means of production.

Marx blew the real precursors of the LTP off the orthodox intellectual map since Marx accepted the bogus framing of the questions by capitalist apologetics and thus Marx became the perfect "true opponent" or foil on the intellectual battlefield. In that sense, Marx and Marxism could be seen as the perfect intellectual opposition just as the Soviet Union was the perfect real world example as "the" alternative to capitalism. Both sides in the Cold War agreed on that framing of the Great Debate. Now the Soviet Union and that whole "model" is gone, but capitalist apologists and their Marxist counterparts are less willing to toss their "Great (pseudo-)Debate" into the dustbin of intellectual history.

For at least the above five reasons, Marx has been a blessing to capitalist apologetics and an unmitigated disaster for the critique of the employment system. In terms of popular culture, it is as if Marx was sent back by the capitalists of the future as the "terminator" of the libertarian and democratic left, and that Marx did his job all too well. Marxism has become the ultimate capitalist tool.

## **Revisiting the Precursor Question**

### ***Was John Locke a Lockean?***

Returning to the question about precursors to the modern LTP, there is some controversy about Locke. It now seems rather clear that Locke was not a "Lockean" and considered wage labor as perfectly compatible with getting the fruits of "your" labor [Ellerman 1992]. The employer bought and owned the employee's labor, and thus the employer got the fruits of the "labour that was mine" [Locke, Second Treatise, §28]. But Locke's theory has also been given the more radical interpretation, e.g., by some classical laborists such as Hodgskin. Richard Schlatter's *Private Property: The History of an Idea* goes into that tradition. Thus the LTP idea is often associated with Locke although he actually tried to make it safe for the master-servant relation.

### ***Precursors of the Responsibility Principle?***

The precursor question is also greatly complicated by the realization that the root norm behind the LTP is simply the old juridical principle of imputing legal responsibility according to *de facto* responsibility. The "capitalist" legal system operates on the basis of that same principle in every legal trial and imputation. The disagreement is *not* about the principle itself. That is why the theory of the "invisible judge" and how, outside of trials, imputations are in effect made according to contracts (*laissez faire* imputation) is so important [Ellerman 1992]. One can't hold a trial to explicitly apply the principle every time property is consumed or produced so any property system needs some sort of invisible hand system of imputation to handle normal life where property is created and destroyed all the time.

There is even the "fundamental theorem" that shows that if the system satisfies certain conditions, then the imputation of the invisible judge will be correct according to the LTP. The key conditions were: 1) no transfers outside of contracts (i.e., no property externalities), and 2) the fulfillment of a transfer contract by the *de facto* transfer of the sold property or commodity from the responsibility of the seller to the responsibility of the buyer. The employment contract

inherently violates that second condition since responsible human action is not interpersonally transferable as the legal authorities are well aware as when the criminous employee contends in court: “But I sold my labor!” Thus to get the employment system to work, all the legal authorities have to do is “accept” the employee obeying the legal commands of the employer as “fulfilling” the contract and the invisible judge does the rest automatically. The legal authorities never have to “say” that noncriminous employees are non-responsible; the question does not come up. Thanks to Marx, it doesn’t even come up in the “Great Debate” about capitalism. In any case, the legal principle of holding people responsible for their deliberate actions is *ancient*, and the search for the precursors of the LTP-as-responsibility-principle would be lost in the mists of time.

### ***The Inadvertent Insights of Von Wieser and Clark***

The recasting of the *property appropriation* question in terms of the responsibility principle is much more recent and quite interesting. Here one could make the argument that the apologists for capitalism were much smarter than the critics. The responsibility principle and the question of imputation were misapplied to production before they were correctly applied.

The misapplication was made by Von Wieser [1889], who not coincidentally was trained as a lawyer, and who even admitted, parenthetically, that ordinary legal or moral imputation could only go to labor. Hence he immediately redirected attention to a new metaphorical notion of “economic imputation” which would be according to marginal productivity and thus would deal with the demand side of price determination in factor markets and not with property rights at all.

John Bates Clark [1899] at about the same time make the metaphorical misinterpretation of the Lockean theory in terms of marginal productivity. Hence essentially the first connection between the imputation of responsibility and property appropriation (the Lockean question) was made by the *combined* efforts of two capitalist apologists rather than by the critics of capitalism—who were largely lost wandering in the dark Marxian woods.

Apologists such as Von Wieser and Clark were “precursors” by mis-applying the LTP/responsibility principle before the critics figured out how to apply it correctly! The apologists knew better than the Marxist Left what theories had to be defanged and metaphorically reinterpreted in order to make the world intellectually safe for an economy based on the renting of people.

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