When Mainstream Economists Discover Karl Marx

Paul Krugman Discovers Marx (and Misses the Point)

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In his recent New York Times op-ed piece, Princeton professor and regular columnist for The New York Times Paul Krugman observed:

> *"The American economy is still, by most measures, deeply depressed. But corporate profits are at record high. It's simple: profits have surged as a share of national income, while wages and other labor compensation are down. The pie isn't growing the way it should — but capital is doing fine by grabbing an ever-larger slice, at labor's expense."*

And then he adds with almost shocked incredulity: "Wait – are we really back to talking about capital versus labor? Isn't that an old-fashioned, almost Marxist sort of discussion, out of date in our modern information economy?"

This is exactly the conflict that Marx identified as the fundamental, inescapable contradiction of the capitalist system that would eventually create the conditions of its downfall: there is a tendency for the owners of businesses, the capitalists, to accumulate ever-vaster wealth while the people who work for them experience a declining standard of living.

Marx supported this conclusion by offering a description of the fundamental operating mechanism of capitalism. Capitalism is based on the principle of private ownership and competition. Private businesses compete with one another for customers, and those who fail to attract a sufficient number eventually perish. But in order to attract customers, businesses must maximize the quality of their product while minimizing its price. If two products embody the same quality but one is cheaper, customers, in pursuit of their self-interest, will purchase the cheaper version, all other factors being equal.

This means that capitalists must constantly attempt to minimize the price of their product simply for the sake of their own survival. If a business devises a way to lower costs, it can capture the market. But, as Marx pointed out, labor costs are a huge factor in determining the price of a product. So those businesses that minimize labor costs can prevail in the dog-eat-dog world of capitalism. For this reason, a downward pressure on wages and benefits is always operating to one degree or another.

But Krugman made no reference to this aspect of Marx's analysis and instead identified two other factors that contribute to the growing inequality in wealth between capitalists and workers, both of which are discussed by Marx.

The first factor involves the introduction of technology into the labor process, i.e. "labor-saving" technology. In other words, machines replace workers or reduce the amount of skill required in the labor process. To give a current example, software has been developed that analyzes legal documents at a fraction of the time it takes lawyers while costing much less. Accordingly, many well-paid lawyers lose their jobs to such software. Living during the industrial age, Marx supplied many such examples.

Krugman referred to his second explanatory factor that increases inequality between capitalists and labor as the "monopoly power" of large corporations where "increasing business concentration could be an important factor in stagnating demand for labor, as corporations use their growing monopoly power to raise prices without passing the gains on to their employees." Here Krugman is approaching the heart of Marxist theory.

Krugman is basically arguing that large corporations use their power to override purely economic trends and simply demand that their employees work for less. But this is precisely the point of Marxism, although from the other direction. Marx persistently argued that capitalism could not function without the willingness of the working class to perform the work. When workers organize and engage in collective action by withholding their labor, the balance of power shifts in favor of the workers who can then demand higher wages as a condition for their return to work, as the ILWU (International Longshore and Warehouse Union) recently did on the West Coast and the teachers did in Chicago.

Amazingly, Krugman never mentions the decline of organized labor as a huge factor explaining the decline of the standard of living of working people, adding that there has been so little discussion of these developments. But others, especially former Secretary of Labor Robert Reich, have discussed these trends and identified the decline of labor as a major factor.

In the 1930s when labor unions were tenaciously fighting for working people, huge gains were made in terms of salaries and benefits. They conducted militant sit-down strikes and mobilized tens of thousands of people from the community to support labor's struggles. Their successes were to a large degree responsible for the emergence of the so-called middle class that thrived in the 1950s and 1960s.

Workers who are organized, acting both collectively and forcefully, can change the economic landscape. But once organized labor becomes complacent and relaxes its guard and ceases to struggle, the laws of capitalism ineluctably grind down their gains and the growing inequality returns until workers again rise up.

Marx argued that eventually workers would see the futility of this repeating cycle, reject capitalism altogether, and begin to construct a socialist society built on entirely humanistic and democratic principles.

In a recent New York Times article on unionizing workers at the bottom of the pay scale, a union organizer was quoted as saying, "We must go back to the strategies of nonviolent disruption of the 1930s." Currently organized labor is all but dying out. Strikes are like an endangered species. Rather than engaging in militant struggles, union members are urged to elect Democrats who then call on workers to accept sacrifices.

AFL-CIO President Richard Trumka has called on working people "to fight like hell" to resist cuts to Social Security and Medicare. But these are just words. To this date, the unions have failed to mobilize their members to stage massive demonstrations across the country against cuts to these popular social programs – demonstrations that could culminate in hundreds of thousands of working people descending on Washington, D.C. to make their demands clear to the Obama administration and the rest of the politicians. Without the unions taking the lead in this struggle, there is little individual workers will be able to accomplish. And if the unions refuse to return to their more militant roots but remain invisible, economists like Paul Krugman will continue to ignore their existence and overlook their current historic failure to defend working people.

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