



Episode 1,176: The Anti-Marxist Argument That Clinches It

Guest: G.P. Manish

WOODS: All right, it's been quite a while, but when I saw your article about Marx and Böhm-Bawerk, I thought now's the time, especially because, my gosh, I don't recall in the past there being quite so many tributes to the brilliance of Karl Marx on the anniversary of his birth. It was insane. It was in all these mainstream outlets and everybody just spoke as if his extremely controversial claims were simply commonplaces.

MANISH: Yes, in fact, I had rational expectations about that. I was preparing to write this piece and timed it so that it would coincide around the time of that 200th anniversary of his birth, because I expected that there would be quite a few pieces praising him, his numerous contributions to different fields of thought and so on.

WOODS: Well, what you've done here in particular is taken on one of the claims that people didn't pay as much attention to. For instance, you refer to an article in *The New York Times* called "Marx Was Right," and a lot of people answered that article by talking about the impossibility of socialism in the classical sense because of the socialist calculation problem, which we've talked about numerous times on this show. But then you took on the more technical argument, which is – and this is again quoting from *The New York Times* – "Marx's basic thesis" – he's arguing in favor of Marx's basic thesis – "that capitalism is driven by a deeply divisive class struggle in which the ruling class minority appropriates the surplus labor of the working-class majority as profit" is correct.

And this is one of the arguments that Eugen von Böhm-Bawerk made many, many years ago in *Karl Marx and the Close of His System*, but it's a very, very heavy piece of economic reasoning, and it's not very accessible to the layman. What you've done is taken the insights of Böhm-Bawerk that really do pretty much bury Marx to the point where, if you're going to defend him after that, you have to shed half of his framework in order to do it. And you've done a great service in your article that I'll link to in the show notes page in making this accessible to the general public. So I'd like to dive into that right now, if I may. You ready?

MANISH: Sure, sure. Yes, absolutely. And actually, credit also should go to my student, Cassidy, who I coauthored the article with. She's the one who actually dove into *Karl Marx and the Close of His System* and the article grew out of that.

WOODS: Wow, that's tremendous.

MANISH: And yeah, she's a bright young kid and she's going to be in our master's program starting up soon.

WOODS: Wow. Oh, that's really great. I love hearing things like that. That's wonderful. Okay, let's start off with the labor theory of value. Incidentally, by the way, these days you find a lot of Marxists who don't believe in the labor theory of value, and yet, as we're going to see, it seems so fundamental to Marx's view of exploitation and all the rest of his analytical apparatus that it seems that if you get rid of this one thing, the whole thing ought to come down with it. But anyway, let's talk about what does he mean when he uses this concept of the labor theory of value?

MANISH: Sure. Just before that, I want to just make a little comment on what you said. I think that's pretty insightful, because I think it goes a lot with sort of the way people have analyzed Marx's work earlier, like when Böhm-Bawerk was criticizing Marx, Marx the economist was what everybody was talking. This is in the late 19th, early 20th century. Nowadays, we think more in terms of Marx the philosopher, so things like alienation and things like that are played up. But like you mentioned, I think economics is really core and critical to his overall worldview. You can't actually make a cohesive argument for his worldview without including the economic aspect of it.

WOODS: Indeed, indeed.

MANISH: And that's why the power of Böhm-Bawerk's criticism. Now, coming to the actual labor theory of value, well, basically it's pretty simple. So what Marx is arguing is that the exchange, the ratios of prices, whether we live in a barter world where goods are trading directly for goods or we live in a world with money where goods are trading for money, the actual exchange ratios will reflect the relative amounts of labor time that are embodied in the two goods being exchanged. So to take an example, for example, if let's say one shirt is trading for one loaf of bread, what that reflects is that each of those two articles is going to embody the same amount of labor time needed to produce it. So let's say ten hours went into producing the loaf of bread. Then ten hours went into the shirt as well. So that's what the labor theory of value is.

WOODS: So let's make sure, so as not to set up a strawman, that everybody understands what the labor theory of value is not. He's not, first of all, saying that if you're just a really lousy shirt maker and it takes you 100 hours of labor that that ought to be taken into account. He does use the concept of socially necessary labor.

MANISH: Yes.

WOODS: And secondly, he's not saying that if you spend all day fashioning mud pies into plates and trying to serve them as edible, that this doesn't automatically make it desirable simply because you've employed your labor in it. So we don't need to go into caricatures of what he's saying. Now, what I'd like to do in this episode is follow exactly what you've done in the article, where we're not going to critique each idea as it's presented. Let's present the whole system and then let's go back and unravel each one of the parts. So that's the labor theory of value. And then you have a section on his law of value, which I think you've more or less just hit on in terms of exchange one thing for another indicates that there must be some equal amount of some third thing, namely labor in both of them.

MANISH: Yeah, and that's how Marx actually tries to provide a proof or argument for the labor theory of value. Now, Böhm-Bawerk makes an interesting point. He says, you know, if you look at David Ricardo or Adam Smith, they sort of have some sort of — I mean, Smith had

different sort of theories of value. Ricardo was more explicit about it. But they actually don't try to provide any proof for why the labor theory of value should hold true. Böhm-Bawerk gives Marx a lot of credit. He says he's the first guy who actually tries to provide an argument as positive proof for this proposition.

And basically the way he does it is to say — he actually starts with an observation by Aristotle made a long, long time ago. He said Aristotle said if two articles are exchanging for each other, there must be something that is equal in both of them. So this thing called value must exist in both of them. It must be of some magnitude that it must be equal. And so Marx starts with that and says, okay, assuming that is true, then we have to search for what is this common element that makes the value in each of these two articles equal. And then what he does, the way he proceeds to do it is not through a positive proof of what the common element is. Instead, he sort of rejects everything else and ends up with labor time as the common element.

WOODS: Ah, okay, all right. So actually, I guess I hadn't realized that's how he had gone about it. All right, so now we're up to the section on how he takes this idea and uses it to develop his idea of surplus value and what profits are and what worker exploitation are. So now this is where it actually becomes a little tricky to follow, so let's take our time with this.

MANISH: Sure. So the law of value is basically saying what we started our discussion with, that the two — in any exchange relationship or any sort of price, the two articles being traded embody the same amount of labor time. So that's the law of value. Now, it's important to point out that for Marx, he accepts the fact that actual prices will fluctuate around this law of value. So for example, in a monetary world, let's say \$1 embodies two hours of labor time, and let's say a shirt also embodies two hours of labor time. Now, according to the law of value, therefore, one shirt must exchange for a dollar because they embody the same amount of labor time. But Marx says this is sort of a long-run tendency, so at any given moment in time, a shirt might trade for more than a dollar or less than a dollar, but in the long run, it will tend towards the price dictated by the law of value.

And the next step then is to try to say, okay, if we accept the law of value as true, how do we explain the profits earned by capitalists? And that's where the whole theory of surplus value comes into play.

WOODS: Okay, so how do we then get to exploitation? How does any of this involve something — well, I will say I read David Conway's book, by the way, *A Farewell to Marx*, and he says it's debatable whether or not Marx is actually rendering a moral judgment on capitalism when he uses the word exploitation, so we should be careful about that. So if I say something underhanded is going on, I may be speaking out of turn.

MANISH: Yes, in fact, there is an argument some supporters of Marx make, who make the argument that actually he never even says this is morally unjust. He's trying to be scientific about it, that while — but it implies that, so if we were to sort of impute some sort of moral judgment — and yeah, we'll get to that, I guess. We're jumping ahead a little bit.

WOODS: All right, so yeah, let's talk then about how exploitation is involved then. Just based on what we've heard so far, what is it about the wages that people are receiving that is problematic?

MANISH: Yeah, so this is where it gets tricky. So the next step in Marx's argument is — I mean, all of this is really logical, so you have to give credit to him. He's taking this one proposition and he's trying to apply it as rigorously as possible in the logical sense. So when he approaches the whole problem of profits, what he says is: look, first of all, what is the broad sort of pattern of the activities of the capitalist? What the capitalists do in a market, in a capitalist economy, in an economy based on private property is they invest some amount of money into certain commodities, the inputs into the production process. So that includes the material factors of production: machines and raw materials and things like that and also labor. And then what they do is they transform those inputs into an output, which they sell for a certain price.

And Marx sort of said this whole pattern of activities can be translated into or sort of summarized by what he said the MCM prime pattern. So you basically have a sum of money, M , let's say \$100. You invest that into inputs. You convert the \$100 into a bundle of commodities, which are your inputs. You use your inputs, you produce an output, and you sell it for some higher amount of money, M' — let's say 110, which would mean like a 10% rate of profit.

And what Marx, the whole puzzle that Marx is trying to solve is the following: he says, look, you invest this amount of money in your inputs. Those prices of those inputs are regulated by the law of value, so the amount of labor time embodied in the input should equal the amount of labor time that's embodied in the money that you paid for the inputs. At the same time, when you sell your output, that too should conform to the law of value. So the amount of labor time embodied in your output should equal the amount of labor time that is embodied in the money that you're receiving for it. But in this process, somehow the amount of labor time embodied in the output is greater than the amount of labor time embodied in the total input. That's the only way you can explain profit. That's surplus value. So that's the puzzle that Marx is trying to solve.

WOODS: Okay, so how does he solve it? What does he say is the explanation for how this can happen?

MANISH: The crucial factor is everything to do with labor markets and the wage rate. So Marx distinguishes between the material factors of production and the human factor of production. And for the material factors of production, he says, look, let's say you purchase cotton to make cotton yarn, and let's say that embodies a certain amount of labor time. Now, when you use that cotton to produce the cotton yarn, all of that labor time is going to be transferred to the output. So if 20 hours of labor went into producing the cotton, that 20 hours get transferred to your product.

The case with labor, however, is different. So Marx says the law of value applies to wages and labor as well, and the way it applies is — so he says let's — and he talks in terms of daily wages. So let's say you pay \$3 to hire workers for a day, and assuming \$1 embodies two hours of labor time, what that implies is that somehow six hours of labor went into producing a day's work. And this is the slightly puzzling part, which is how do you produce labor? Because you're born with it. You have the ability to just work. And what he means here of course is that you need to be able to consume certain commodities to subsist. So the average worker, let's say, has to consume a certain bundle of commodities to be able to survive so that he can produce his labor power, as Marx would call it, and the amount of labor that goes into those

products that he has to consume to subsist is the amount of labor time that is needed to produce a day's work.

And then what that implies is, what Marx is saying is, look, let's say that six hours went into producing a day's worth of work, and that's embodied in the wage rates that the capitalist's paying. But the capitalist can employ the worker for any amount of time in the day, and if he employs the worker for a greater span of time than the amount of time that goes into producing the labor power, that's the source of surplus labor and that's the source of surplus value.

WOODS: This step always, no matter how hard I try — I mean, eventually I got it, but this step just really mystified me. It was just hard — I think it's partly because labor, you're right, it's hard to think of it the way you would think of cotton yarn.

MANISH: Yeah, and the crucial thing in the whole argument is that, in terms of the material factors of production, there is no way that they could contribute to profit in Marx's — the way he said — once you start deducing from the labor theory of value and you hit sort of material factors, that's what Marx calls constant capital. He says this is constant capital because the amount of labor time embodied in them must just be transferred to the product. But in the case of labor, there is leeway. So the capitalist in the wages that he pays the worker is paying for a certain amount of labor time that's gone into producing the subsistence goods, the goods that ensure the worker subsists. But then he has the option of employing the worker for a certain working day, which might be greater or less than the amount of that labor time that went into producing the labor power. And that's what Marx called variable capital. He called the amount of money that is invested in workers and wages, he calls that variable capital because you can extract the surplus value from them, but you cannot do that for the material factors of production.

WOODS: Phew, man, there's a lot here. All right, I think maybe it would actually illuminate Marx's argument more if we now looked at the critique, because if anybody is having trouble seeing what's going on here or what the nature of the argument is, it may actually become clearer when you see Böhm-Bawerk take it apart and you see — once you see the correct way to think about what's really going on, then I think it's easier to understand his error. So does it make sense now to go back to the labor theory of value and see what's wrong right there?

MANISH: Yes, it does.

WOODS: So let's do that.

MANISH: Okay. So basically Böhm-Bawerk's criticism of Marx's labor theory of value, what he says is, look — Like I said, he gives credit to Marx. He says, oh, he actually tries to argue for this, so let's try to see what could be wrong. And, you know, what Böhm-Bawerk says is, look, the method that Marx applies to sort of sifting out labor as being that common element that we discussed earlier, that's not necessarily a wrong step. Because remember, he's sort of putting all the different properties that could possibly explain this supposed equality of value, and he's coming up with labor at the end of it. So Böhm-Bawerk says, well, if you put all of the possible properties in there and you very rigorously sort of argue through the analysis and show that every other possible property could not explain the common magnitude earlier, the common element, then Marx's argument would be right.

But the first criticism he makes, he says, hang on a second. Marx never even considers the fact that there are certain commodities that could not be produced with labor time but which do have exchange value and they have prices, especially those commodities that are products of nature. So if you think, for example, of a tract of land, just land as it exists at any given moment in time that is scarce and is being, let's say, purchased by a farmer, what is the labor time that went into producing the tract of land? It doesn't exist. Similarly if you think of oil or coal that is under the ground which also has a price, but there was no labor that went into producing those commodities. So actually what Böhm-Bawerk, the first criticism that he makes of Marx is he says, hang on a second; he actually from the beginning assumes that all of the commodities being are products of labor.

WOODS: All right, so that's the first thing. So right away he claims to have a universal theory that obviously three seconds of reflection shows you is not. Okay.

MANISH: Right.

WOODS: But what if I came back and just said, all right, okay, so maybe we can't account for some of the nature-given factors, but maybe it's otherwise true?

MANISH: Right, exactly. And then Böhm-Bawerk, that's the next step. He says, okay, well, someone could say, you know, these sort of commodities don't really — they're not a major part of transactions. Most commodities that we transact, that we exchange on markets are products of labor. Well, what then? And the next step — and this is an interesting argument that Böhm-Bawerk makes — he says, look, how did Marx actually — let's focus only on products of labor. How did Marx illuminate the different properties and end up with labor? And he says, look, Marx makes an argument — he says, look, why can't — he accepts — and we discussed this and he pointed out this out, he accepts that these commodities are useful. So something like bread or a shirt, it is a product of labor, but it's also useful. It has some use value. You use it to satisfy some wants. Why can't use value be the thing that links the two commodities? Why should it be labor?

And what Marx says — and this is a crucial point here. He says, well, think of all the things that make some good useful. Like bread, it would be various properties that the bread has. It has nutritive properties, it tastes a certain way, etc., etc., etc. All of these certain properties contribute to the fact that it is useful and that we consume it to satisfy some needs. Marx says if you take two commodities and if you try to think about what is the common element that is contributing to the equal value in the two of them, well, all of these properties that contribute to use value actually make the two commodities different, not the same. So if you're talking about a shirt exchanging for a loaf of bread, well, there are certain properties that contribute to the use value of a shirt and there are certain properties that contribute to the use value of bread. These two things make the commodities different, so therefore all these different properties that contribute to the use value cannot be the common element that explains the equality of value.

WOODS: All right, so there's a — okay, so is this the fundamental critique then of the labor theory of value, or is there more?

MANISH: Well, that's how Marx then says, oh, once we illuminate all of this stuff, then we're left with labor. That's Marx's argument. And what Böhm-Bawerk says in response is he makes two points. He says, well, on the one hand, even though all of these different properties

contribute to the usefulness of these two commodities, usefulness or the fact that it can satisfy wants is a common property of the two commodities. So why should we not assume that just looking at pure utility or marginal utility or just usefulness, why can't we assume that that could be the thing that explains the common magnitude, even if we assume that the value of the two commodities is equal.

And then the next and even more important point that Böhm-Bawerk raises is: let's think about labor. And Marx actually talks about this. He says, well, we have different kinds of labor. So you have the labor of a baker who produces the bread, the labor of a tailor who produces the shirt. But when he talks about labor and talks about labor as the thing that explains the equality of value, he assumes that there is some commonality to that labor. But Böhm-Bawerk says in his criticism, hang on a second. You said all the properties that explain use value lend heterogeneity or it makes the commodities different. Now you accept the fact that you have different types of labor. But somehow, when you look at labor, you look at a commonality, but when you look at the various properties that contribute to use value, you see a dissimilarity. So you're just basically making the argument up as you go along.

WOODS: What about the more fundamental point that doesn't even touch on the labor question, just his faulty understanding of exchange, that the very idea of thinking in terms of equality to begin with? Obviously the two individuals don't view the two things as being "equal," or why would they — if they were genuinely equal, then the two people would be completely indifferent to whether they made the exchange and they wouldn't bother.

MANISH: And that is a point that Böhm-Bawerk raises, but it's a slightly weaker argument than the other ones because you're assuming — what Böhm-Bawerk is trying to do with the other arguments is he's trying to grant the fact that the value somehow is equal. Even if we assume that —

WOODS: Right, even if we assume that, there are still problems.

MANISH: Yeah, even if we take away the whole subjective element altogether like Marx wants, because the argument that you just stated would assume we're taking a subjective standpoint, that, well, why would I give up something that I value equal to something else? And what Böhm-Bawerk is trying to say is, look, even if we assume that something objective, some property of this product must be what determines value, the way Marx goes about distilling it down to being labor as the common element is just arbitrary. There is no — he basically has a conclusion and he tries to find an argument to reach the conclusion.

WOODS: All right, so I get why that is a stronger argument, but I felt like it still at some level has to be pointed out.

MANISH: Yes, I agree with you. And yeah, you know, one doesn't have to grant so much to Marx as well.

WOODS: Exactly. I appreciate the generosity of Böhm-Bawerk. Of course, by the end, with Marx lying there with his limbs removed and his guts all over the floor, Böhm-Bawerk has had his say. But can we go now to the problem of exploitation and how we can deal with that? Because let me see if I can — for the Ron Paul curriculum, I did a long section, probably four

classes on Marx, and when I got to this part, I had to rerecord this five or six times to express it correctly. That was years ago now. Let me see if I'm good at just reproducing what you just said to me. Like, you just said this 15 minutes ago, and I'm still not confident that I can spit it back at you.

But it basically goes like this: that if we're going to talk about the labor theory of value, well, labor itself is subject to the labor theory of value. How do we create the labor? Well, we have to — there are inputs that go into it, namely food and whatever else you need to, as you say, subsist. But when I compare these inputs that I have to put in with, on the other hand, all the outputs I get from that labor, there's a difference between these things that favors me, the employer, and that difference represents surplus value and exploitation.

MANISH: Yes. Yes, that's broadly correct, yes.

WOODS: But if that were true, then the only reason workers would ever go for that — if they were in some metaphysical sense entitled to more than they're getting, so the only reason that they would ever consent to this would be, well, they have no other choice, all the capitalists are colluding with each other to keep wages down, the society they live in inculcates certain values in them that are at odds with their own interests but they can't perceive that. I mean, what am I not saying correctly about this?

MANISH: Well, the thing is that — and this is a point that I don't touch on in the article, but actually Böhm-Bawerk criticizes this point. He says even if you grant whatever you said is true, even if we assume that the socialist slogan, which is that workers should get the full value that they produce — and he said, well, why do — and he put it the same way that you did. He said, why do people accept to be ripped off? If you know that you're not getting the full value for what you're putting in, why do you continue to be employed? Why do you continue to consent to this whole arrangement? But he says — and this is a very interesting argument. He says once you accept the subjective theory of value, you actually realize that the laborer is getting the full value of everything he puts in because of the time difference between the value of the labor and the output that he creates and the value of the final product that is going to be sold, which lies in the future.

WOODS: All right, so let's make sure everybody gets that. The point is that the laborer gets whatever money he gets pretty much right away —

MANISH: Yes, now, right.

WOODS: — and the employer bears the burden of waiting for the product to be brought to market.

MANISH: Exactly.

WOODS: In some cases, these could be products that have so many stages in them, maybe this one worker is responsible for some stage that's way remote from the finished product, but —

MANISH: Five years away, let's say, you know?

WOODS: Right, but he gets paid today instead of having to wait five years. And five years from now, maybe he could get some amount that Marx thinks he's entitled to, but he'll be dead. He won't be able to enjoy it.

MANISH: Right. No, and in fact, this is what Böhm-Bawerk says, that the reason why the worker accepts this arrangement is because he does not have the means to sustain himself through that production process. That's what the capitalist does. He bears the burden of uncertainty, of course, because he's producing for the future, but also just the fact that he's the one who has the capital to be able to provide the wages to the worker and be able to do that while the production process is underway. And so there is this whole time element to when the output is going to be produced and when the value is going to be finally generated. So the worker is getting paid now, but the value of the final consumer good that is coming out of that production process lies in the future, and that's the source of all the earnings of the capitalist in terms of both interest and profit.

WOODS: I have to go back to the issue that I have such trouble with. I can't imagine I'm the only one who has trouble following it. I'm just going to repeat it for you again. [laughing] I'm sorry to be so slow and dense today.

MANISH: No, that's fine.

WOODS: But the argument would be: I the employer — it seems to take for granted that all I have to pay and that therefore all I will wind up paying to the worker is just enough to keep him going, but yet I can employ him for many more hours longer than it would take to acquire the stuff to keep him going.

MANISH: Yes, yes.

WOODS: Okay. But by the way, in reality — I mean, forget about Marx's books. In reality, that's never, almost never the wage anybody works for. I mean, we have minimum wages in America, but almost nobody earns them. And if that were the case, even if it were the case that the only — that okay, we have minimum wages and that forces some employers to pay more than they otherwise would, but that doesn't explain why 98% of Americans earn more than the minimum wage. Because you can subsist on that minimum wage. You absolutely can. And yet you don't get paid it. How does he account for that?

MANISH: Well, he doesn't, because you know, his whole — And this is the thing: once you accept the labor theory of value and you push it to its logical conclusion, you have to accept what is called an iron law of wages, which is what you're objecting to, the notion that ultimately the wages on the marketplace will reflect the amount of labor time that is needed to ensure that workers subsist. That is the logical conclusion of the labor theory of value, and of course that is a separate criticism that one could make of the actual wages that prevail, which is to say, hang on a second, they don't actually reflect bare subsistence. Now, both Ricardo and Marx — and Ricardo too sort of ascribed to this theory more or less — they both sort of say, well, hang on a second. Subsistence — and Marx also says this. He says subsistence is not objective; it's subjective. But of course when you apply the argument, what you mean by subsistence is sort of something objective, which is to say barely surviving. And there is no response to this. I don't think there is.

WOODS: I don't think there is either, especially when —

MANISH: You have to — Sorry, you have to throw out the labor theory of value.

WOODS: But also, how could you ever then — I think Mises points this out. If the argument that he makes for how history unfolds is that the position of the workers consistently deteriorates, how is that not contradicting what he's saying here? If they're already at subsistence, how could it deteriorate? They'd be dead if it deteriorated.

MANISH: Right, yeah. The whole labor market aspect of course has all of these contradictions built into it. But in Böhm-Bawerk's criticism actually, interestingly, he leaves all that out. So basically —

WOODS: Yeah, no fill in all the smarter-guy stuff that I left out because I was focusing on the dumb-guy stuff.

MANISH: [laughing] Oh, no, I think Böhm-Bawerk is just trying to be — and this is sort of a 19th century sort of way of criticizing.

WOODS: He's a 19th century —

MANISH: You give a lot.

WOODS: Yeah, he's a 19th century Bob Murphy, who is constantly granting things and saying, look, even on your own terms you lose. He really — and isn't it interesting? Bob says that Böhm-Bawerk is his favorite economist.

MANISH: I would say he's my second if not close first, tied with Mises.

WOODS: Isn't that something?

MANISH: He's a magnificent economist. He's brilliant, yeah.

WOODS: All right, so now let's get some more Böhm-Bawerk. I'm just going to sit back and enjoy. Let the knowledge just wash over me.

MANISH: [laughing] No, so the thing is — and this is, again, a little tricky. So remember, we spoke about constant versus variable capital, that the material factors of production cannot account for profits. It can only be accounted for by the fact that the capitalist is making the workers work longer hours than is needed to basically allow them to subsist. And in fact, Marx says, well, the amount of time that — let's say 6 hours of labor time is needed to produce the subsistence goods that are needed for workers to survive. If the capitalist makes the worker work for 6 hours, that is necessary labor. But if the working day is 12 hours, the extra 6 hours is surplus labor. That's how he defines these concepts. And he says that surplus labor is responsible for surplus value or profit.

Now, if you take a step further, you get into all sorts of contradictions with it. I go through it in detail in the article. To summarize, the problem is that you — let's assume that the working day throughout the economy is the same. So every capitalist is paying the same wage rate to

workers throughout the whole economy, and that is the subsistence wage, which reflects the labor time needed to subsist. And let's also assume that the working day is the same. So let's say 6 hours is the necessary labor component and 12 hours is the working day in every industry. What that must mean is that in every industry, what Marx calls the rate of exploitation or the rate of surplus value will be the same. That is, the amount of surplus value extracted from workers will be the same.

The problem, however, is that even if the rate of surplus value is the same in every industry, you can have differences in the rate of profits, because profit is not calculated purely as using variable capital as your base, but it also includes the amount of money you put into the material factors of production or your constant capital. So the contradiction in Marx's system is that, if you assume the labor theory of value holds and if you assume the law of value holds and if you assume that the whole theory of surplus value also holds — so you grant him all of this — you come into this bad contradiction, which is all of these things can hold true, but you have different rates of profit in different industries.

And so what Böhm-Bawerk says is, hang on a second. This is a situation of disequilibrium. And Marx also accepts this. He too says in his third volume where he actually deals with this contradiction explicitly — he says this is a problem and that there will be, therefore — you know, this is a disequilibrium situation, so capital will move out of those industries with lower rates of profit into those industries with a higher rate of profit, and the actual prices to which markets will tend in the long run will not be the prices that are dictated by his labor theory of value. And so basically what Böhm-Bawerk says is, hang on a second; if you accept all of this, where is the foundation for your labor theory of value and for your theory of exploitation? It just doesn't exist.

WOODS: Is this the same argument, just on a higher level, that there's a problem when we look at different industries and we look at how labor-intensive they are as opposed to capital-intensive?

MANISH: Yes.

WOODS: So that — so let me just explain it, again, the way a dumb guy like me understands it. The argument would be that, according to Marx's system, it should be the case that the more labor-intensive an industry is, what, the higher the rate of profit because the more opportunity for exploitation? But that does not —

MANISH: Yeah, the higher — yes, you're right. The higher the rate of surplus value, not rate of profit.

WOODS: Okay, I beg your pardon. Okay, so the higher the rate of surplus value. But that doesn't seem to hold true empirically.

MANISH: Yes, because you could have — so you would have industries with the same rate of surplus value or the rate of exploitation, which you just mentioned, but they would have different rates of profit because profit is not calculated purely on the amount that you pay out for your workers. So you have two industries where you pay \$3 per worker for a day. You make double the amount of time that is reflected in the 3 hours, so you get like 100% rate of surplus value or rate of exploitation. But they will have differing rates of profit, because the

same actual absolute amount of profit that you've extracted will now be — you know, when you calculate the rate of profit, you have to include the amount that you paid for your material factors of production. So if one industry is more capital-intensive than the other, you will have differing rates of profit, even though you have the same rate of surplus value extraction.

WOODS: So this confounds Marx precisely how? Just to make it as super clear as possible.

MANISH: Because if you assume that the law of value holds true, all that that guarantees is that your rate of surplus value can equalize. But when your rate of surplus value is equalized across different industries, if you have differing rates of profit, then of course that means there's still room for prices to change, because remember, for Marx, the law of value has to hold true — is a long-run phenomenon. Prices tend to the prices dictated by the law of value. But if that holds true, all that that can guarantee is that the rate of surplus value extraction is the same in every industry. But that still allows for differences in the rate of profit based on what Marx called the organic difference in the organic composition of capital, in that some industries are more capital-intensive and other industries are less capital-intensive. And then what that implies is then that those prices are not equilibrium prices. They are not the prices to which your markets are tending.

WOODS: Because if there's a difference in profit, that's going to attract —

MANISH: Change the prices, right, of the commodities being produced. And so the long-run tendency of prices is going to be different. It's actually going to be dictated by the relative costs of production, which is a very different theory of prices as compared to the labor theory of value, because essentially what you're saying is, in the long run, your equilibrium prices are going to be determined not just by the amount of labor that the two products embody, but you also have to include some component for the amount of capital that —

WOODS: But Marx must have realized that that is a factor, so how is he addressing that?

MANISH: Well, he tries very hard in Volume III of *Capital* to address it, as Böhm-Bawerk points out, and the interesting thing is Böhm-Bawerk pointed this out before Marx actually explicitly discussed it, because in the history of how *Capital* was written, you know, *Das Kapital*, Volume I was written in 1867 and Marx died, and Volume II and III were released posthumously. Engels put together notes that Marx had left out. When Böhm-Bawerk wrote his famous first volume of his *Capital and Interest*, which is criticizing all the different theories of interest, he deals with Marx's theory of exploitation — what he calls the exploitation theory of interest, and there he actually says that either the labor theory of value holds true and you have in the long run industries with differing rates of profit, or you accept the fact that in the long run competition ensures that the rate of profit will equalize across industries and that means the labor theory of value cannot be true. So he actually predicted the problem. And Marx sort of tries to deal with it in Volume III, but he doesn't really do a good job of it.

WOODS: Now, is the reason that the first scenario can't hold, where you have different rates of profit, that any alert entrepreneur is not going to sit around in some industry with a lower rate of profit? He's going to move things around and that's going to change all these variables, all these prices and stuff.

MANISH: Yeah, and in fact, this was a crucial part of classic economics, from Adam Smith down through Ricardo, Mill. All classical economists accepted the fact that if you have different rates of profit in two industries, in different industries, you're going to have capital move from where you have a lower rate of profit to where you have a higher rate of profit, or where in fact you're making a loss to where you're making a profit. And Marx also accepts this in Volume III. There's a famous chapter ten of Volume III where he tries to deal with all of these issues, and he accepts it. He says, yes, competition will not allow for differing rates of profit.

And you know, the one thing he tries to – and Böhm-Bawerk talks about this in the book *Karl Marx and the Close of His System*, he deals with these arguments as well. He tries to say something to the effect of, well, you know, even if we accept this to be true, the actual long-run rate of profit to which industries will tend is going to be some sort of an average rate of profit, which is indirectly determined by the amount of labor time that goes into – that argument is very complicated. But Böhm-Bawerk also deals with that in the book, so if anyone's interested in getting that deep into the criticism, they can find that also in the book.

WOODS: Let me point out the obvious here, which is that when you get popular-level criticisms of Marx, they are not at this level. And I'm not saying this to be funny or to try to puff you up in some way, but simply to point out that it's fine to make surface-level criticisms of Marxism, because there are some you can find where there are just claims that are not true or especially about laws of history and stuff that you can certainly combat and come after. But when it gets to the economics of it, it's not quite enough just to say: oh, well, there's the socialist calculation problem. I mean, that does deal with a lot of it, and if that's as far as you want to go, that's okay. But if you really want to engage with folks and take all these concepts and show that they don't actually cohere and they don't yield you the results that they're supposed to yield you, then you need to read Böhm-Bawerk and you probably should read the article that you and your student wrote.

MANISH: Yes, I think if someone wants to – and that was the reason why we wrote the article. It was sort of a way – you know, if someone doesn't have the time to go through the whole book, they can read the article. They'll get a good flavor of everything that's in the book. Or if someone wants to read an easier version of what is in the book, they can start with the article. That was our intention. But you're absolutely right in the sense that, to have a complete criticism of Marx, one must deal with Marx the economist. And of course there's this whole aspect, and that was really the aspect that Mises emphasized, because he was building off Böhm-Bawerk. He just assumed that everyone's going to read Böhm-Bawerk or deal with the other criticisms of Marx. His main criticism, as was Hayek's, was to focus on what happens when you put his actual positive proposal into practice, which is socialism or central planning and all of that stuff. How can that work? But what Böhm-Bawerk deals with is the opposite, which is to say, is his analysis of capitalism correct?

And in fact, one could argue that in many ways, if his analysis of capitalism from an economic standpoint isn't correct, then his whole theory of historical stages and the whole dialectical – you know, the whole historical materialism, all of that also falls apart, because these are the laws of motion of capitalism, which will ensure that capitalism will decay based on its own sort of inherent contradictions and will lead us sort of inexorably to socialism.

WOODS: Right. Now, there are still parts of Marx's system that you can just in a drive-by fashion go after and it's so tempting to do that. And there's nothing wrong with that. Like for

instance, one of my favorites is a point that Mises I think makes in *Theory and History*, where he says Marx has this theory of how culture and law and ideology fits into his system, and it's that the means of production at a particular time somehow are the source of where people get their ideas. So serfdom derives the ideas and principles of it from the means of production that were at work at that time. But of course, what this overlooks is where did those means of production come from? How could you have created those means of production unless you already had legal ideas and moral ideas and whatever that would be the backdrop for the creation of the means of production?

MANISH: Right. And in fact, it goes with the overall sort of emphasis that Mises placed on ideas, which also is I think inherent and crucial to the whole classical liberal political philosophy, that ideas ultimately drive both economic life, political life, social life. So sort of Marx's whole theory inverts that. And Mises also has a criticism I think of Engels, who tries to develop a whole dialectic of nature and stuff along similar lines. So basically saying that things happen in the material substratum, and then that has an influence on the ideas, sort of putting Hegel on his head.

WOODS: Well, TomWoods.com/1176 is where you can read the article by G.P., and is it Cassidy?

MANISH: Yes, Cassidy.

WOODS: Okay, so you should definitely read it. It's very clear, step-by-step. Read it three times if you need to, but once you do that, not only will you know more about Marx and his ideas than any libertarian you know, you will know more than 99.9% of the Marxists you'll ever meet, and that's a pretty good advantage to enjoy when you go in and argue with them. Well, G.P., thanks so much for your time. Looking forward to seeing you next month at the Mises Institute for Mises University.

MANISH: Sure, yes, Tom, thanks for having me, and it was great to talk to you.