



## **KAR MARX: RIGHT FOR THE WRONG REASON**

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Communist Manifesto author, Karl Marx, famously predicted the death of capitalism in his magnum opus *Das Kapital*. His prediction remains unfulfilled, and many economists even argue he got that one wrong... too.

What's more, Marx declared capitalism would die by its own hand (invisible or otherwise). Its thirst for profit was a self-destructive death spiral for one very simple, almost common sense reason, "The rich get richer and the poor get poorer." Marx saw profit always going to the capitalist at the expense of the worker; to the Have's from the Have-not's. Why? Automation. Labor was, and remains the single greatest business expense. The surest path to increased profit is to replace labor. Additionally, the resulting unemployment creates a labor surplus which drives down the wage rate, creating even more profit.

For Marx, it was just a matter of time before the exploited masses would be left, inevitably, with no money to buy the products and services the capitalists were greedily peddling. In other words, the capitalists would eventually have no customers because those customers, their workers, would be too poor to buy anything, the misery-go-round would grind to a halt, and revolution would ensue.

Marx never really explained what he expected to replace capitalism once the dust settled. Probably because he'd gotten the source of value wrong. The single greatest question about which all economists obsessed, even Marx, was this, "Where does value come from?" Why do people want the stuff they want? Why does it cost so much? And, why are people willing to pay more for some things than for others? Marx, like many economists to that point, believed labor was the magic pixie dust of value. Everything is worthless until you apply labor to it; for example, sand into glass, timber into houses. He and they were wrong.

But there is hope for Marx yet.

We did finally discover the cause of value, and sure enough, capitalism is exploiting it to capitalism's own destruction, but for the exact opposite reason Marx posited.

He foresaw the masses running out of money to buy things, when in fact everything will become so cheap that buying will become unnecessary because the single most remarkable byproduct of automation is not unemployment but falling prices. Everything just gets cheaper and cheaper the more we automate. The masses won't run out of money because the capitalists have it all, we just won't need money anymore. Forget trying to divide the pie more equitably, because we're about to have more pie than anyone could ever want, and soon.

Scarcity is the source of all value. Though the world is filled with resources, they are indeed limited. Even worse, they have multiple uses. Therefore, some mechanism must be employed to decide who gets how much, and for what purpose. We've got more wants and desires than there is material to fulfill them. This problem is called material scarcity.

But wait, there's more.

The planet does not spontaneously produce food, clothing, shelter, or mobile phones. People must labor upon materials to produce these necessities and niceties. Time and labor are also limited, or scarce. We can't create stuff fast enough to satisfy the rate at which people want to consume. This is called productive scarcity, which is why many early economists attributed value to labor.

Most goods and services derive value from a combination of both scarcities. Mobile phones comprise more productive scarcity than material, diamond rings the opposite, and water very little of either (in most locales).

Capitalism's pursuit of profit via automation is on the verge of ending scarcity, and thus capitalism itself. When robots can do anything and everything, including repair and replicate themselves (sans a Terminator scenario) we will end productive scarcity.

But what of material scarcity? We have only one planet, don'tcha know. Actually, we have a solar system, and soon a robotic fleet capable of "mining" it.

But what's to stop us from runaway consumption? Currently, consumption is regulated or checked by price, an organic consequence of scarcity. Won't we fall off the consumerism cliff if we can have everything we ever wanted, for free? The Law of Diminishing Marginal Utility says no. It states that each successive unit of something a person consumes is less useful or beneficial to them than the unit before. When any additional benefit from another unit reaches zero, consumption ceases. For example, the second piece of pizza is just a little less satisfying than the first, so little in fact, you don't even notice. The 6<sup>th</sup> piece really gets your attention, but now for the wrong reason, and somewhere on the way to your 10<sup>th</sup> piece you've had enough. Your fun meter is pegged. You reach your "bliss point." This law can be seen at work demographically among western populations transitioning from middle age into elderhood. Their consumption slows dramatically even though most have the financial means to continue.

Yes, to Marx's delight capitalism is about to destroy itself, but not from poverty and revolt. It will end in abundance and bliss.