

# Marxist and Austrian Class Analysis

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I want to do the following in this paper: First to present the theses that constitute the hard core of the Marxist theory of history. I claim that all of them are essentially correct. Then I will show how these true theses are derived in Marxism from a false starting point. Finally, I will demonstrate how Austrianism in the Mises-Rothbard tradition can give a correct but categorically different explanation of their validity.

Let me begin with the hard core of the Marxist belief system:<sup>1</sup>

(1) "The history of mankind is the history of class struggles."<sup>2</sup> It is the history of struggles between a relatively small ruling class and a larger class of the exploited. The primary form of exploitation is economic: The ruling class expropriates part of the productive output of the exploited or, as Marxists say, "it appropriates a social surplus product" and uses it for its own consumptive purposes.

(2) The ruling class is unified by its common interest in upholding its exploitative position and maximizing its exploitatively appropriated surplus product. It never deliberately gives up power or exploitation income. Instead, any loss in power or income must be wrestled away from it through struggles, whose outcome ultimately depends on the class consciousness of the exploited, i.e., on whether or not and to what extent the exploited are aware of their own status and are consciously united with other class members in common opposition to exploitation.

(3) Class rule manifests itself primarily in specific arrangements regarding the assignment of property rights or, in Marxist terminology, in specific "relations of production." In order to protect these arrangements or production relations, the ruling class forms and is in command of the state as the apparatus of compulsion and coercion. The state enforces and helps reproduce a given class structure through the administration of a system of "class justice," and it assists in the creation and the support of an ideological superstructure designed to lend legitimacy to the existence of class rule.

(4) Internally, the process of competition within the ruling class generates a tendency toward increasing concentration and centralization. A multipolar system of exploitation is gradually supplanted by an oligarchic or monopolistic one. Fewer and fewer exploitation centers remain in operation, and those that do are increasingly integrated into a hierarchical order. And externally, e.g., within the international system, this internal centralization process will (the more intensively the more advanced it is) lead to imperialist interstate wars and the territorial expansion of exploitative rule.

(5) Finally, with the centralization and expansion of exploitative rule gradually approaching its ultimate limit of world domination, class rule will increasingly become incompatible with the further development and improvement of "productive forces." Economic stagnation and crises become more and more characteristic and create the "objective conditions" for the emergence of a revolutionary class consciousness of the exploited. The situation becomes ripe for the establishment of a classless coeity, the "withering away of the state," "the replacement of government of men over men by the administration of things,"<sup>3</sup> and, as a result, unheard of economic prosperity.

All of these theses are perfectly justifiable, as I will show. Unfortunately, however, it is Marxism, which subscribes to all of them, that has done more than any other ideological system to discredit their validity by deriving them from a patently absurd theory of exploitation.

What is this Marxist theory of exploitation? According to Marx, such precapitalist social systems as slavery and feudalism are characterized by exploitation. There is no quarrel with this. After all, the slave is not a free laborer, and he cannot be said to gain from his being enslaved. Rather, his enslavement reduces his utility at the expense of an increase in wealth appropriated by the slave master. The interest of the slave and that of the slave owner are indeed antagonistic. The same is true of the interests of the feudal lord who extracts a land rent from a peasant who works on homesteaded land. The lord's gains are the peasant's losses. And it is also undisputed that slavery as well as feudalism hamper the development of productive forces. Neither slave nor serf will be as productive as he would be without slavery or serfdom.

But the genuinely new Marxist idea is that essentially nothing is changed as regards exploitation under capitalism, i.e., if the slave becomes a free laborer, or if the peasant decides to farm land homesteaded by someone else and pays rent in exchange for doing so. To be sure, Marx, in the famous twenty-fourth chapter of the first volume of his *Kapital*, titled "The So-called Original Accumulation," gives a historical account of the emergence of capitalism that makes the point that much or even most of the initial capitalist property is the result of plunder, enclosure, and conquest. Similarly, in chapter 25, on the "Modern Theory of Colonialism," the role of force and violence in exporting capitalism to the—as we would now say—Third World is heavily emphasized. Admittedly,

all this is generally correct, and insofar as it is there can be no quarrel with labeling such capitalism exploitative. Yet one should be aware of the fact that here Marx is performing a trick. In engaging in historical investigations and arousing the reader's indignation at the brutalities underlying the formation of many capitalist fortunes, he actually sidesteps the issue at hand, evading the fact that his thesis is really an entirely different one: namely, that even under "clean" capitalism, so to speak, i.e., a system in which the original appropriation of capital was the result of nothing else but homesteading, work, and savings, the capitalist who hired labor to be employed with this capital would nonetheless be engaged in exploitation. Indeed, Marx considered the proof of this thesis his most important contribution to economic analysis.

His proof of the exploitative character of a clean capitalism consists in the observation that the factor prices, in particular the wages paid to laborers by the capitalist, are lower than the output prices. The laborer, for instance, is paid a wage that represents consumption goods that can be produced in three days, but he actually works five days for his wage and produces an output of consumption goods that exceeds what he receives as remuneration. The output of the two extra days, the surplus value in Marxist terminology, is appropriated by the capitalist. Hence, according to Marx, there is exploitation.<sup>4</sup>

What is wrong with this analysis?<sup>5</sup> The answer becomes obvious once it is asked why the laborer would possibly agree to such an arrangement! He agrees because his wage payment represents present goods—while his own labor services represent only future goods—and he values present goods more highly. After all, he could also decide not to sell his labor services to the capitalist and then reap the "full value" of his output himself. But this would of course imply that he would have to wait longer for any consumption goods to become available to him. In selling his labor services he demonstrates that he prefers a smaller amount of consumption goods now over a possibly larger one at some future date. On the other hand, why would the capitalist want to strike a deal with the laborer? Why would he want to advance present goods (money) to the laborer in exchange for services that bear fruit only later? Obviously, he would not want to pay out, for instance, \$100 now if he were to receive the same amount in one year's time. In that case, why not simply hold on to it for one year and receive the extra benefit of having actual command over it during the entire time? Instead, he must expect to receive a larger sum than \$100 in the future in order to give up \$100 now in the form of wages paid to the laborer. He must expect to be able to earn a profit, or more correctly an interest return. And he is constrained by time preference, i.e., the fact that an actor invariably prefers earlier over later goods, in yet another way. For if one can obtain a larger sum in the future by sacrificing a smaller one in the present, why then is the capitalist not engaged in more saving than he actually is? Why does he not hire more laborers than he does, if each one of them promises an additional interest return? The answer again should be

obvious: because the capitalist is a consumer, too, and cannot help being one. The amount of his savings and investing is restricted by the necessity that he, too, like the laborer, requires a supply of present goods "large enough to secure the satisfaction of all those wants the satisfaction of which during the waiting time is considered more urgent than the advantages which a still greater lengthening of the period of production would provide."<sup>6</sup>

What is wrong with Marx' theory of exploitation, then, is that he does not understand the phenomenon of time preference as a universal category of human action.<sup>7</sup> That the laborer does not receive his "full worth" has nothing to do with exploitation but merely reflects the fact that it is impossible for man to exchange future goods against present ones except at a discount. Unlike the case of slave and slave master, where the latter benefits at the expense of the former, the relationship between the free laborer and the capitalist is a mutually beneficial one. The laborer enters the agreement because, given his time preference, he prefers a smaller amount of present goods over a larger future one; and the capitalist enters it because, given his time preference, he has a reverse preference order and ranks a larger future amount of goods more highly than a smaller present one. Their interests are not antagonistic but harmonious. Without the capitalist's expectation of an interest return, the laborer would be worse off because he would have to wait longer than he wishes to wait; and without the laborer's preference for present goods the capitalist would be worse off because he would have to resort to less roundabout and less efficient production methods than those he desires to adopt. Nor can the capitalist wage system be regarded as an impediment to the further development of the forces of production, as Marx claims. If the laborer were not permitted to sell his labor services and the capitalist to buy them, output would not be higher but lower because production would have to take place with relatively reduced levels of capital accumulation.

Under a system of socialized production, quite contrary to Marx's proclamations, the development of productive forces would not reach new heights but would instead sink dramatically.<sup>8</sup> For obviously, capital accumulation must be brought about by definite individuals at definite points in time and space through homesteading, producing, and/or saving. In each case it is brought about with the expectation that it will lead to an increase in the output of future goods. The value an actor attaches to his capital reflects the value he attaches to all expected future incomes attributable to its cooperation and discounted by his rate of time preference. If, as in the case of collectively owned factors of production, an actor is no longer granted exclusive control over his accumulated capital and hence over the future income to be derived from its employment, but partial control instead is assigned to non-homesteaders, non-producers, and non-savers, the value for him of the expected income and hence that of the capital goods is reduced. His effective rate of time preference will rise. There will be less homesteading of resources whose scarcity is recognized and less saving for the maintenance

of existing and the production of new capital goods. The period of production, the roundaboutness of the production structure, will be shortened, and relative impoverishment will result.

If Marx's theory of capitalist exploitation and his ideas on how to end exploitation and establish universal prosperity are false to the point of being ridiculous, it is clear that any theory of history that can be derived from it must be false, too. Or if it should be correct, it must have been derived incorrectly. Instead of going through the lengthy task of explaining all of the flaws in the Marxist argument as it sets out from its theory of capitalist exploitation and ends with the theory of history that I described earlier, I will take a shortcut. I will now outline in the briefest possible way the correct—Austrian, Misesian-Rothbardian—theory of exploitation; give an explanatory sketch of how this theory makes sense out of the class theory of history; and highlight along the way some key differences between this class theory and the Marxist one and also point out some intellectual affinities between Austrianism and Marxism stemming from their common conviction that there does indeed exist something like exploitation and a ruling class.<sup>9</sup>

The starting point for the Austrian exploitation theory is plain and simple, as it should be. Actually, it has already been established through the analysis of the Marxist theory: Exploitation characterized the relationship between slave and slave master and serf and feudal lord. But no exploitation was found possible under a clean capitalism. What is the principle difference between these two cases? The answer is: the recognition or non-recognition of the homesteading principle. The peasant under feudalism is exploited because he does not have exclusive control over land that he homesteaded, and the slave because he has no exclusive control over his own homesteaded body. If, on the other hand, everyone has exclusive control over his own body (is a free laborer, that is) and acts in accordance with the homesteading principle, there can be no exploitation. It is logically absurd to claim that a person who homesteads goods not previously homesteaded by anybody else, or who employs such goods in the production of future goods, or who saves presently homesteaded or produced goods in order to increase the future supply of goods, could thereby exploit anybody. Nothing has been taken away from anybody in this process, and additional goods have actually been created. And it would be equally absurd to claim that an agreement between different homesteaders, savers, and producers regarding their non-exploitatively appropriated goods or services could possibly contain any foul play. Instead, exploitation takes place whenever any *deviation* from the homesteading principle occurs. Exploitation occurs whenever a person successfully claims partial or full control over scarce resources he has not homesteaded, saved, or produced, and which he has not acquired contractually from a previous producer-owner. Exploitation is the expropriation of homesteaders, producers, and savers by late-coming non-homesteaders, non-producers, non-savers, and non-contractors; it is the expropria-

tion of people whose property claims are grounded in work and contract by people whose claims are derived from thin air and who disregard others' work and contracts.<sup>10</sup>

Needless to say, exploitation thus defined is in fact an integral part of human history. One can acquire and increase wealth either through homesteading, producing, saving, or contracting, or by expropriating homesteaders, producers, savers, or contractors. There are no other ways. Both methods are natural to mankind. Alongside homesteading, producing, and contracting, there have always been non-productive and non-contractual property acquisitions. And in the course of economic development, just as producers and contractors can form firms, enterprises, and corporations, so can exploiters create large-scale exploitation enterprises, governments, and states. The ruling class (which may again be internally stratified) is initially composed of the members of such an exploitation firm. And with a ruling class established over a given territory and engaged in the expropriation of economic resources from a class of exploited producers, the center of all history indeed becomes the struggle between exploiters and the exploited. History, then, correctly told, is essentially the history of the victories and defeats of the rulers in their attempt to maximize exploitatively appropriated income and of the ruled in their attempts to resist and reverse this tendency. It is in this assessment of history that Austrians and Marxists agree and why a notable intellectual affinity between Austrian and Marxist historical investigations exists. Both oppose a historiography that recognizes only action or interaction, economically and morally on a par; and both oppose a historiography that instead of adopting such a value-neutral stand thinks that one's own arbitrarily introduced subjective value judgments have to provide the foil for one's historical narratives. Rather, history must be told in terms of freedom and exploitation, parasitism and economic impoverishment, private property and its destruction—otherwise it is told falsely.<sup>11</sup>

While productive enterprises come or go because of voluntary support or its absence, a ruling class never comes to power because there is a demand for it, nor does it abdicate when abdication is demonstrably demanded. One cannot say by any stretch of the imagination that homesteaders, producers, savers, and contractors have demanded their own expropriation. They must be coerced into accepting it, and this proves conclusively that the exploiting firm is not in demand at all. Nor can one say that a ruling class can be brought down by abstaining from transactions with it in the same way as one can bring down a productive enterprise. For the ruling class acquires its income through non-productive and non-contractual transactions and thus is unaffected by boycotts. Rather, what makes the rise of an exploitation firm possible, and what alone can in turn bring it down, is a specific state of public opinion or, in Marxist terminology, a specific state of class consciousness.

An exploiter creates victims, and victims are potential enemies. It is possible that this resistance can be lastingly broken down by force, as, for example, in

the case of a group of men exploiting another group of roughly the same size. However, more than force is needed to expand exploitation over a population many times its own size. For this to happen, a firm must also have public support. A majority of the population must accept the exploitative actions as legitimate. This acceptance can range from active enthusiasm to passive resignation. But it must be acceptance in the sense that a majority must have given up the idea of actively or passively resisting any attempt to enforce non-productive and non-contractual property acquisitions. The class consciousness must be low, undeveloped, and vague. Only as long as this state of affairs lasts is there still room for an exploitative firm to prosper, even if no actual demand for it exists. Only if and insofar as the exploited and expropriated develop a clear idea of their own situation and are united with other members of their class through an ideological movement that gives expression to the idea of a classless society where all exploitation is abolished, can the power of the ruling class be broken. Only if and insofar as a majority of the exploited public becomes consciously integrated into such a movement and accordingly displays a common outrage over all non-productive or non-contractual property acquisitions, shows a common contempt for everyone who engages in such acts, and deliberately contributes nothing to help make them successful (not to mention actively trying to obstruct them), can its power be brought to crumble.

The gradual abolition of feudal and absolutist rule and the rise of increasingly capitalist societies in Western Europe and the United States—accompanied by unheard of economic growth and increasing population—was the result of a growing class consciousness among the exploited, who were ideologically molded together through the doctrines of natural rights and liberalism. In this Austrians and Marxists agree.<sup>12</sup> They disagree, however, as to whether the reversal of this liberalization process and the steadily increased levels of exploitation in these societies since the last third of the nineteenth century, and particularly pronounced since World War I, are the result of a loss in class consciousness. In fact, in the Austrian view Marxism must accept much of the blame for this development by misdirecting attention from the correct exploitation model of the homesteader-producer-saver-contractor versus the non-homesteader-producer-saver-contractor to the fallacious model of the wage earner versus the capitalist, thus muddling things up.<sup>13</sup>

The establishment of a ruling class over an exploited one many times its size by coercion and the manipulation of public opinion, i.e., a low degree of class consciousness among the exploited, finds its most basic institutional expression in the creation of a system of public law superimposed on private law. The ruling class sets itself apart and protects its position as a ruling class by adopting a constitution for their firm's operations. On the one hand, by formalizing the internal operations within the state apparatus as well as its relations with the exploited population, a constitution creates some degree of legal stability. The more familiar

and popular private law notions are incorporated into constitutional and public law, the more favorably disposed will be the public to the existence of the state. On the other hand, any constitution and public law also formalizes the immune status of the ruling class as regards the homesteading principle. It formalizes the right of the state's representatives to engage in non-productive and non-contractual property acquisitions and the ultimate subordination of private to public law. Class justice, i.e., one set of laws for the rulers and another for the ruled, comes to bear in this dualism of public and private law and in the domination and infiltration of public law over and into private law. It is not because private property rights are recognized by law, as Marxists think, that class justice is established. Rather, class justice comes into being precisely whenever a legal distinction exists between a class of persons acting under and being protected by public law and another class acting under and being protected instead by some subordinate private law. More specifically then, the basic proposition of the Marxist theory of the state in particular is false. The state is not exploitative because it protects the capitalists' property rights, but because it itself is exempt from the restriction of having to acquire property productively and contractually.<sup>14</sup>

In spite of this fundamental misconception, however, Marxism, because it correctly interprets the state as exploitative (unlike, for example, the public choice school, which sees it as normal firm among others),<sup>15</sup> is on to some important insights regarding the logic of state operations. For one thing, it recognizes the strategic function of redistributionist state policies. As an exploitative firm, the state must at all times be interested in a low degree of class consciousness among the ruled. The redistribution of property and income is the state's means by which it can create divisiveness among the public and destroy the formation of a unifying class consciousness among the exploited. Furthermore, the redistribution of state power itself through democratizing the state constitution and opening up every ruling position to everyone and granting everyone the right to participate in the determination of state personnel and policy is actually a means for reducing the resistance against exploitation as such. Secondly, the state is indeed, as Marxists see it, the great center of ideological propaganda and mystification: Exploitation is really freedom; taxes are really voluntary contributions; non-contractual relations are really "conceptually" contractual ones; no one is ruled by anyone but we all rule ourselves; without the state neither law nor security would exist; and the poor would perish, etc. All of this is part of the ideological superstructure designed to legitimize an underlying basis of economic exploitation.<sup>16</sup> And finally, Marxists are also correct in noticing the close association between the state and business, especially the banking elite—even though their explanation for it is faulty. The reason is not that the bourgeois establishment sees and supports the state as the guarantor of private property rights and contractualism. On the contrary, the establishment correctly perceives the state as the very antithesis to private property that it is and takes a close interest in it



for this reason. The more successful a business, the larger the potential danger of governmental exploitation, but the larger also the potential gains that can be achieved if it can come under government's special protection and is exempt from the full weight of capitalist competition. This is why the business establishment is interested in the state and its infiltration. The ruling elite in turn is interested in close cooperation with the business establishment because of its financial powers. In particular, the banking elite is of interest because as an exploitative firm the state naturally wishes to possess complete autonomy for counterfeiting. By offering to cut the banking elite in on its own counterfeiting machinations and allowing them to counterfeit in addition to its own counterfeited notes under a regime of fractional reserve banking, the state can easily reach this goal and establish a system of state monopolized money and cartelized banking controlled by the central bank. And through this direct counterfeiting connection with the banking system and by extension the banks' major clients, the ruling class in fact extends far beyond the state apparatus to the very nerve centers of civil society—not that much different, at least in appearance, from the picture that Marxists like to paint of the cooperation between banking, business elites, and the state.<sup>17</sup>

Competition within the ruling class and among different ruling classes brings about a tendency toward increasing concentration. Marxism is right in this. However, its faulty theory of exploitation again leads it to locate the cause for this tendency in the wrong place. Marxism sees such a tendency as inherent in capitalist competition. Yet it is precisely so long as people are engaged in a clean capitalism that competition is *not* a form of zero-sum interaction. The homesteader, the producer, saver, and contractor do not gain at another's expense. Their gains either leave another's physical possessions completely unaffected or they actually imply mutual gains (as in the case of all contractual exchanges). Capitalism thus can account for increases in absolute wealth. But under its regime no systematic tendency toward relative concentration can be said to exist.<sup>18</sup> Instead, zero-sum interactions characterize not only the relationship between the ruler and the ruled, but also between competing rulers. Exploitation defined as non-productive and non-contractual property acquisitions is only possible as long as there is anything that can be appropriated. Yet if there were free competition in the business of exploitation, there would obviously be nothing left to expropriate. Thus exploitation requires monopoly over some given territory and population; and the competition between exploiters is by its very nature eliminative and must bring about a tendency toward relative concentration of exploitative firms as well as a tendency toward centralization within each exploitative firm. The development of *states* rather than capitalist firms provides the foremost illustration of this tendency: There are now a significantly smaller number of states with exploitative control over much larger territories than in previous centuries. And within each state apparatus there has in fact been a constant tendency toward increasing the powers of the central government at the expense of its regional and local subdivisions.

Yet outside the state apparatus a tendency toward relative concentration has also become apparent for the same reason—not, as should be clear by now, because of any trait inherent in capitalism, but because the ruling class has expanded its rule into civil society through the creation of a state-banking-business alliance and, in particular, the establishment of a system of central banking. If a concentration and centralization of state power then takes place, it is only natural that this be accompanied by a parallel process of relative concentration and cartelization of banking and industry. Along with increased state powers, the associated banking and business establishment's powers of eliminating or putting economic competitors at a disadvantage by means of non-productive and/or non-contractual expropriations increase. Business concentration is the reflection of a "state-ization" of economic life.<sup>19</sup>

The primary means for the expansion of state power and the elimination of rival exploitation centers is war and military domination. Interstate competition implies a tendency toward war and imperialism. As centers of exploitation, their interests are by nature antagonistic. Moreover, with each of them—internally—in command of the instrument of taxation and absolute counterfeiting powers, it is possible for the ruling classes to let others pay for their wars. Naturally, if one does not have to pay for one's risky ventures oneself, but can force others to do so, one tends to be a greater risk taker and more trigger-happy than one might otherwise be.<sup>20</sup> Marxism, contrary to much of the so-called bourgeois social sciences, gets the facts right: There is indeed a tendency toward imperialism operative in history; and the foremost imperialist powers are indeed the most advanced capitalist nations. Yet the explanation is once again faulty. It is the *state* as an institution exempt from the capitalist rules of property acquisitions that is by nature aggressive. And the historical evidence of a close correlation between capitalism and imperialism only seemingly contradicts this. It finds its explanation, easily enough, in the fact that in order to come out successfully from interstate wars, a state must be in command of sufficient (in relative terms) economic resources. Other things being equal, the state with more ample resources will win. As an exploitative firm, a state is by nature destructive of wealth and capital accumulation. Wealth is produced exclusively by civil society; and the weaker the state's exploitative powers, the more wealth and capital society accumulates. Thus, paradoxical as it may sound at first, the weaker or the more liberal a state is internally, the further developed capitalism is; a developed capitalist economy to extract from makes the state richer; and a richer state then makes for more and more successful expansionist wars. It is this relationship that explains why initially the states of Western Europe, and in particular Great Britain, were the leading imperialist powers, and why in the twentieth century this role has been assumed by the United States.

And a similarly straightforward yet once again entirely non-Marxist explanation exists for the frequent Marxist observation that the banking and business

establishment is usually among the most ardent supporters of military strength and imperial expansionism. This support does not occur because the expansion of capitalist markets requires exploitation, but because the expansion of state-protected and privileged business requires that such protection be extended also to foreign countries and that foreign competitors be hampered through non-contractual and non-productive property acquisitions in the same way or more so than internal competition. Specifically, the establishment supports imperialism if this support promises to lead to a position of military domination of one's own allied state over another. For then, from a position of military strength, it becomes possible to establish a system of what one may call monetary imperialism. The dominating state will use its superior power to enforce a policy of internationally coordinated inflation. Its own central bank sets the pace in the process of counterfeiting, and the central banks of the dominated states are ordered to use its currency as their own reserves and inflate on top of them. Thus, along with the dominating state and as the earliest receivers of the counterfeit reserve currency, its associated banking and business establishment can engage in an almost costless expropriation of foreign property owners and income producers. A double layer of exploitation of a foreign state and a foreign elite on top of a national state and elite is imposed on the exploited class in the dominated territories, causing prolonged economic dependency on and relative economic stagnation in comparison with the dominant nation. It is this—very uncapitalist—situation that characterizes the status of the United States and the U.S. dollar and that gives rise to the—correct—accusations concerning U.S. economic exploitation and dollar imperialism.<sup>21</sup>

Finally, the increasing concentration and centralization of exploitative powers leads to economic stagnation and thereby creates the objective conditions for the ultimate demise of these powers and the establishment of a classless society capable of producing unheard of economic prosperity.

Contrary to Marxist claims, this society will not be the result of any historical laws. In fact, no such things as inexorable historical laws as Marxists conceive of them exist.<sup>22</sup> Nor will it be the result of a tendency for the rate of profit to fall with an increased organic composition of capital (an increase in the proportion of constant to variable capital, that is), as Marx thought. Just as the labor theory of value is false beyond repair, so is the law of the tendency of the profit rate to fall, which is based on it. The source of value, interest, and profit is not exclusively the expenditure of labor, but much more general: acting, i.e., the employment of scarce means in the pursuit of goals by agents who are constrained by time preference and uncertainty (imperfect knowledge). There is no reason to suppose, then, that changes in the organic composition of capital should have any systematic relation to changes in interest and profit.

Instead, the likelihood of crises that stimulate the development of a higher degree of class consciousness (i.e., the subjective conditions for the overthrow of the

ruling class) increases because—to use one of Marx' favorite terms—of the “dialectics” of exploitation that I have already touched on earlier: Exploitation is destructive of wealth formation. Hence, in the competition of exploitative firms, i.e., of states, less exploitative or more liberal ones tend to outcompete more exploitative ones because they are in command of more ample resources. The process of imperialism initially has a relatively liberating effect on societies coming under its control. A relatively more capitalist social model is exported to relatively less capitalist (more exploitative) societies. The development of productive forces is stimulated; economic integration is furthered, division of labor extended, and a genuine world market established. Population figures go up in response, and expectations about the economic future rise to unprecedented heights.<sup>23</sup> With exploitative domination taking hold, and interstate competition reduced or even eliminated in a process of imperialist expansionism, however, the external constraints on the dominating state's power of internal exploitation and expropriation gradually disappear. Internal exploitation, taxation, and regulation begin to increase the closer the ruling class comes to its ultimate goal of world domination. Economic stagnation sets in and the—worldwide—higher expectations become frustrated. And this—high expectations and an economic reality increasingly falling behind these expectations—is the classical situation for the emergence of a revolutionary potential.<sup>24</sup> A desperate need for ideological solutions to the emerging crises arises, along with a more widespread recognition of the fact that state rule, taxation, and regulation—far from offering such a solution—actually constitute the very problem that must be overcome. If in this situation of economic stagnation, crises, and ideological disillusion<sup>25</sup> a positive solution is offered in the form of a systematic and comprehensive libertarian philosophy coupled with its economic counterpart, Austrian economics, and if this ideology is propagated by an activist movement, then the prospects of igniting the revolutionary potential to activism become overwhelmingly positive and promising. Anti-statist pressures will mount and bring about an irresistible tendency toward dismantling the power of the ruling class and the state as its instrument of exploitation.<sup>26</sup>

If and insofar as this occurs, however, it will not mean—contrary to the Marxist model—social ownership of means of production. In fact, social ownership is not only economically inefficient, as has already been explained, but incompatible with the idea that the state is “withering away.”<sup>27</sup> For if means of production are owned collectively, and if it is realistically assumed that not everyone's ideas as to how to employ these means in production happen to coincide (as if by miracle), then it is precisely socially owned factors of production that require continued state actions, i.e., an institution coercively imposing one person's will on another's. Instead, the withering away of the state, and with this the end of exploitation and the beginning of liberty and unheard of economic prosperity, means the establishment of a pure private property society regulated by nothing but private law.

## NOTES

1. See on the following K. Marx and F. Engels, *The Communist Manifesto* (1848); K. Marx, *Das Kapital*, 3 vols. (1867; 1885; 1894); as contemporary Marxists, E. Mandel, *Marxist Economic Theory* (London: Merlin, 1962); idem, *Late Capitalism* (London: New Left Books, 1975); P. Baran and P. Sweezy, *Monopoly Capital* (New York: Monthly Review Press, 1966); from a non-Marxist perspective, L. Kolakowski, *Main Currents of Marxism*, G. Wetter, *Sovietideologie heute* (Frankfurt/M.: Fischer, 1962), vol. 1; W. Leonhard, *Sovietideologie heute* (Frankfurt/M.: Fischer, 1962), vol. 2.
2. *The Communist Manifesto*, section 1.
3. *The Communist Manifesto*, section 2, last 2 paragraphs; F. Engels, *Von der Autoritaet* in Marx and Engels, *Ausgewaehlte Schriften*, 2 vols. (East Berlin: Dietz, 1953), vol. 1, p. 606; idem, *Die Entwicklung des Sozialismus von der Utopie zur Wissenschaft*, *ibid.* vol. 2, p. 139.
4. See K. Marx, *Das Kapital*, vol. 1; the shortest presentation is his *Lohn, Preis, Profit* (1865). Actually, in order to prove the more specific Marxist thesis that exclusively the owner of labor services is exploited (but not the owner of the other originary factor of production: land), yet another argument would be needed. For if it were true that the discrepancy between factor and output prices constitutes an exploitative relation, this would only show that the capitalist who rents labor services from an owner of labor, and land services from an owner of land, would exploit either labor, or land, or labor and land simultaneously. It is the labor theory of value, of course, which is supposed to provide the missing link here by trying to establish labor as the sole source of value. I will spare myself the task of refuting this theory. Few enough remain today, even among those claiming to be Marxists, who do not recognize the faultiness of the labor theory of value. Rather, I will accept for the sake of argument the suggestion made, for instance, by the self-proclaimed "analytical Marxist" J. Roemer in *A General Theory of Exploitation and Class* (Cambridge: Harvard University Press, 1982); and *Value, Exploitation and Class* (London: Harwood Academic Publishers, 1985), that the theory of exploitation can be separated analytically from the labor theory of value; and that a "generalized commodity exploitation theory" can be formulated which can be justified regardless of whether or not the labor theory of value is true. I want to demonstrate that the Marxist theory of exploitation is nonsensical even if one were to absolve its proponents from having to prove the labor theory of value and, indeed, even if the labor theory of value were true. Even a generalized commodity exploitation theory provides no escape from the conclusion that the Marxist theory of exploitation is dead wrong.
5. See on the following E. v. Boehm-Bawerk, *The Exploitation Theory of Socialism-Communism* (South Holland: Libertarian Press, 1962).
6. L. v. Mises, *Human Action* (Chicago: Regnery, 1966), p. 407; see also M. N. Rothbard, *Man, Economy and State* (Los Angeles: Nash, 1970), pp. 300–01.
7. See on the time preference theory of interest in addition to the works cited in notes 5 and 6 also F. Fetter, *Capital, Interest and Rent* (Kansas City: Sheed Andrews and McMeel, 1977).
8. See on the following H. H. Hoppe, *Theory of Socialism and Capitalism* (Boston: Kluwer, 1988); idem, "Why Socialist Must Fail," *Free Market*, July 1988; idem, "The Economics and Sociology of Taxation," in *Taxation: An Austrian View*, edited by Lew Rockwell (Auburn: Mises Institute, 1990). Forthcoming.
9. Mises' contributions to the theory of exploitation and class are unsystematic. However, throughout his writings he presents sociological and historical interpretations that are class analyses, if only implicitly. Noteworthy here is in particular his acute analysis of the collaboration between government and banking elite in destroying the gold standard in order to increase their inflationary powers as a means of fraudulent, exploitative income and wealth redistribution in their own favor. See for instance his *Monetary Stabilization and Cyclical Policy* (1928) in idem, *On the Manipulation of Money and Credit*, edited by B. Greaves (Dobbs Ferry: Free Market Books, 1978); see also his *Socialism* (Indianapolis: Liberty Fund, 1981), ch. 20; *The Clash of Group Interests and Other Essays*, Occasional Paper no. 7 (New York: Center for Libertarian Studies, 1978). Yet Mises does not give systematic status to class analysis and exploitation theory because he ultimately misconceives of exploitation as merely an intellectual error which correct economic reasoning can dispel. He fails to fully recognize that exploitation is also and probably even more

- so a moral-motivational problem that exists regardless of all economic reasoning. Rothbard adds this insight to the Misesian structure of Austrian economics and makes the analysis of power and power elites an integral part of economic theory and historical-sociological explanations; and he systematically expands the Austrian case against exploitation to include ethics in addition to economic theory, i.e., a theory of justice next to a theory of efficiency, such that the ruling class can also be attacked as immoral. For Rothbard's theory of power, class and exploitation, see in particular his *Power and Market* (Kansas City: Sheed Andrews and McMeel, 1977); *For a New Liberty* (New York: McMillan, 1978); *The Mystery of Banking* (New York: Richardson and Snyder, 1983); *America's Great Depression* (Kansas City: Sheed and Ward, 1975). On important 19th century forerunners of Austrian class analysis, see L. Liggio, "Charles Dunoyer and French Classical Liberalism," *Journal of Libertarian Studies* 1, no. 3, 1977; R. Raico, "Classical Liberal Exploitation Theory," *ibid.*; M. Weinburg, "The Social Analysis of Three Early 19th Century French Liberals: Say, Comte, and Dunoyer," *Journal of Libertarian Studies* 2, no. 1, 1978; J. T. Salerno, "Comment on the French Liberal School," *ibid.*; D. M. Hart, "Gustave de Molinari and the Anti-Statist Liberal Tradition," 2 parts, *Journal of Libertarian Studies* 5, nos. 3 and 4, 1981.
10. See on this also H. H. Hoppe, *Theory of Socialism and Capitalism*; *idem* "The Justice of Economic Efficiency," *Austrian Economics Newsletter*, 1, 1988; *idem*, "The Ultimate Justification of the Private Property Ethics," *Liberty*, September 1988.
  11. See on this theme also Lord (John) Acton, *Essays in the History of Liberty* (Indianapolis: Liberty Fund, 1985); F. Oppenheimer, *System der Soziologie, Vol. II: Der Staat* (Stuttgart: G. Fischer, 1964); A. Ruestow, *Freedom and Domination* (Princeton: Princeton University Press, 1986).
  12. See on this M. N. Rothbard, "Left and Right: The Prospects for Liberty" in *idem, Egalitarianism as a Revolt Against Nature and Other Essays* (Washington, D.C.: Libertarian Review Press, 1974).
  13. All socialist propaganda to the contrary notwithstanding, the falsehood of the Marxist description of capitalists and laborers as antagonistic classes also comes to bear in certain empirical observations: Logically speaking, people can be grouped into classes in infinitely different ways. According to orthodox positivist methodology (which I consider false but am willing to accept here for the sake of argument), that classification system is better which helps us predict better. Yet the classification of people as capitalists or laborers (or as representatives of varying degrees of capitalist- or laborer-ness) is practically useless in predicting what stand a person will take on fundamental political, social and economic issues. Contrary to this, the correct classification of people as tax producers and the regulated vs. tax consumers and the regulators (or as representatives of varying degrees of tax producer- or consumer-ness) is indeed also a powerful predictor. Sociologists have largely overlooked this because of almost universally shared Marxist preconceptions. But everyday experience overwhelmingly corroborates my thesis: Find out whether or not somebody is a public employee (and his rank and salary), and whether or not and to what extent the income and wealth of a person outside the public sector is determined by public sector purchases and/or regulatory actions--people will systematically differ in their response to fundamental political issues depending on whether they are classified as direct or indirect tax consumers, or as tax producers!
  14. F. Oppenheimer, *System der Soziologie* vol. 2, pp. 322-23, presents the matter thus: "The basic norm of the state is power. That is, seen from the side of its origin: violence transformed into might. Violence is one of the most powerful forces shaping society, but is not itself a form of social interaction. It must become law in the positive sense of this term, that is, sociologically speaking, it must permit the development of a system of "subjective reciprocity": and this is only possible through a system of self-imposed restrictions on the use of violence and the assumption of certain obligations in exchange for its arrogated rights. In this way violence is turned into might, and a relationship of domination emerges which is accepted not only by the rulers, but under not too severely oppressive circumstances by their subjects as well, as expressing a "just reciprocity". Out of this basic norm secondary and tertiary norms now emerge as implied in it: norms of private law, of inheritance, criminal, obligational and constitutional law, which all bear the mark of the basic norm of power and domination, and which are all designed to influence the structure of the state in such a way as to increase economic exploitation to the maximum level which is compatible with the continuation of legally regulated domination." The insight is fundamental that "law grows out of two essentially different roots . . . :

on the one hand, out of the law of the association of equals, which can be called a 'natural' right, even if it is no 'natural right', and on the other hand, out of the law of violence transformed into regulated might, the law of unequals."

On the relation between private and public law, see also F. A. Hayek, *Law, Legislation and Liberty* 3 vols. (Chicago: University of Chicago Press, 1973-79), esp. vol. 1, ch. 6 and vol. 2, pp. 85-88.

15. See J. Buchanan and G. Tullock, *The Calculus of Consent* (Ann Arbor: University of Michigan Press, 1965), p. 19.
16. See H. H. Hoppe, *Eigentum, Anarchie und Staat* (Opladen: Westdeutscher Verlag, 1987); idem, *Theory of Socialism and Capitalism*.
17. See H. H. Hoppe, "Banking, Nation States and International Politics," *Review of Austrian Economics* vol. 4, 1989; M. N. Rothbard, *The Mystery of Banking*, chs. 15-16.
18. See on this in particular M. N. Rothbard, *Man, Economy and State*, ch. 10, esp. the section "The Problem of One Big Cartel"; also L. v. Mises, *Socialism*, chs. 22-26.
19. See on this G. Kolko, *The Triumph of Conservatism* (Chicago: Free Press, 1967); J. Weinstein, *The Corporate Ideal in the Liberal State* (Boston: Beacon Press, 1968); R. Radosh and M. N. Rothbard, eds., *A New History of Leviathan* (New York: Dutton, 1972); L. Ligio and J. J. Martin, eds., *Watershed of Empire* (Colorado Springs: Ralph Myles, 1976).
20. On the relationship between state and war see E. Krippendorff, *Staat und Krieg* (Frankfurt/M.: Suhrkamp, 1985); Ch. Tilly, "War Making and State Making as Organized Crime," in P. Evans et al., eds., *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985); also R. Higgs, *Crisis and Leviathan* (New York: Oxford University Press, 1987).
21. On a further elaborated version of this theory of military and monetary imperialism see H. H. Hoppe, "Banking, Nation States and International Politics", *Review of Austrian Economics*, Vol. 4, 1990.
22. See on this in particular L. v. Mises, *Theory and History* (Auburn: Mises Institute, 1985), esp. part 2.
23. It may be noted here that Marx and Engels, foremost in their *Communist Manifesto*, championed the historically progressive character of capitalism and were full of praise for its unprecedented accomplishments. Indeed, reviewing the relevant passages of the Manifesto concludes J. A. Schumpeter, "Never, I repeat, and in particular by no modern defender of the bourgeois civilization has anything like this been penned, never has a brief been composed on behalf of the business class from so profound and so wide a comprehension of what its achievement is and what it means to humanity." "The Communist Manifesto in Sociology and Economics," in *Essays of J. A. Schumpeter* edited by R. V. Clemence (Port Washington, N.Y.: Kennikat Press, 1951), p. 293. Given this view of capitalism, Marx went so far as to defend the British conquest of India, for example, as a historically progressive development. See Marx' contributions to the *New York Daily Tribune* of June 25, 1853, July 11, 1853, August 8, 1853 (Marx and Engels, *Werke*, vol. 9, [East Berlin: Dietz, 1960]). As a contemporary Marxist taking a similar stand on imperialism see B. Warren, *Imperialism: Pioneer of Capitalism* (London: New Left Books, 1981).
24. See on the theory of revolution in particular Charles Tilly, *From Mobilization to Revolution* (Reading, Mass.: Addison-Wesley, 1978); idem, *As Sociology Meets History* (New York: Academic Press, 1981).
25. For a neo-Marxist assessment of the present era of "late capitalism" as characterized by "a new ideological disorientation" born out of permanent economic stagnation and the exhaustion of the legitimacy powers of conservatism and social-democratism (i.e. "liberalism" in American terminology) see J. Habermas, *Die Neue Unvebersichlichkeit* (Frankfurt/M.: Suhrkamp, 1985); also idem, *Legitimation Crisis* (Boston: Beacon Press, 1975); C. Offe, *Strukturprobleme des kapitalistischen Staates* (Frankfurt/M.: Suhrkamp, 1972).
26. For an Austrian-libertarian assessment of the crisis-character of late capitalism and on the prospects for the rise of a revolutionary libertarian class consciousness see M. N. Rothbard, "Left and Right"; idem, *For a New Liberty*, ch. 15; idem, *Ethics of Liberty* (Atlantic Highlands: Humanities Press, 1982), part 5.
27. On the internal inconsistencies of the Marxist theory of the state see also H. Kelsen, *Sozialismus und Staat* (Wien, 1965).