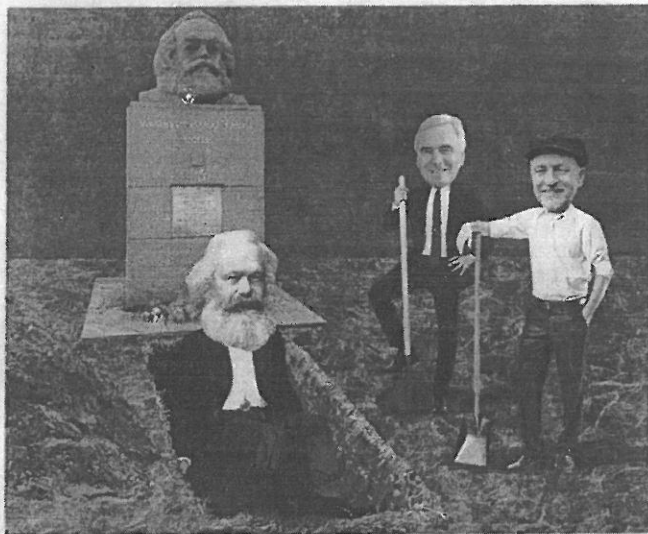


Bagehot | The Marxist moment

The Labour leadership is right—Karl Marx has a lot to teach today's politicians



AN UNOFFICIAL rule of British elections holds that you don't mention big thinkers. On May 7th John McDonnell, the shadow chancellor, broke this rule by mentioning not just any old big thinker but Karl Marx. "I believe there's a lot to learn from reading 'Capital'," he declared. The next day Jeremy Corbyn, the Labour Party leader, described Marx as "a great economist".

This produced jubilation on the right. The *Daily Telegraph* dismissed Messrs McDonnell and Corbyn as "the Marx brothers". The *Daily Mail* reminded its readers of the murderous history of communism. David Gauke, a Conservative minister, warned that "Labour's Marxist leadership" was planning to turn Britain into a "hard-left experiment". He added for good measure that Marx's thinking is "nonsensical".

Yet Mr McDonnell is right: there is an enormous amount to learn from Marx. Indeed, much of what Marx said seems to become more relevant by the day. The essence of his argument is that the capitalist class consists not of wealth creators but of rent seekers—people who are skilled at expropriating other people's work and presenting it as their own. Marx was blind to the importance of entrepreneurs in creating something from nothing. He ignored the role of managers in improving productivity. But a glance at British business confirms that there is a lot of rent seeking going on. In 1980 the bosses of the 100 biggest listed firms earned 25 times more than a typical employee. In 2016 they earned 130 times more. Their swollen salaries come with fat pensions, private health-care and golden hellos and goodbyes.

The justification for this bonanza is that you get what you pay for: companies claim they hire chief executives on the open market and pay them according to their performance. But the evidence is brutal. Most CEOs are company men, who work their way up through the ranks, rather than free agents. In 2000-08 the FTSE all-share index fell by 30% but the pay for the bosses running those firms rose 80%. J.K. Galbraith once said that "the salary of the chief executive officer of the large corporation is not market reward for achievement. It is frequently in the nature of a warm personal gesture by the individual to himself." Corporate Britain is more subtle: CEOs sit on each other's boards and engage in an elaborate exchange of such gestures.

The political system is no less rife with rent-seeking. Poli-

cians routinely cash in on their life of public service by transforming themselves from gamekeepers into poachers when they retire, lobbying departments they once ran, offering advice to companies they once regulated and producing platitudinous speeches for exorbitant amounts of money. Tony Blair became rich in his retirement by offering advice to bankers and third-world dictators. George Osborne, a former chancellor, is also cashing in: he makes more than £650,000 (\$840,000) for working for BlackRock investment managers one day a week, earns many tens of thousands for speeches and edits a London newspaper, the *Evening Standard*.

Marx predicted that capitalism would become more concentrated as it advanced. The number of listed companies has declined at a time when profits are close to their highest levels ever. Concentration is particularly pronounced in the most advanced sectors of the economy. Google controls 85% of Britain's search-engine traffic. Marx was also right that capitalism would be increasingly dominated by finance, which would become increasingly reckless and crisis-prone.

What about his most famous prediction—that capitalism inevitably produces immiseration for the poor even as it produces super-profits for the rich? "Immiseration" is too strong a word to describe the condition of the poor in a country with a welfare state and a minimum wage. Yet many trends are worrying. Average wages are still below their level before the financial crisis in 2008 and are not expected to exceed it for several years. The rise of the Uber economy threatens to turn millions of people into casual workers who eat only what they can kill.

Full Marx

The problem with Marx is not that his analysis is nonsensical, as Mr Gauke maintains, but that his solution was far worse than the disease. And the problem with Messrs Corbyn and McDonnell is not that they have learned something from Marx but they haven't learned anything from the past hundred years of history. Mr McDonnell is a fan not just of Marx but also of Lenin and Trotsky. Mr Corbyn described Fidel Castro as a "champion of social justice". A leaked draft of the Labour manifesto resurrects defunct plans to renationalise industries and extend collective bargaining.

The Tory party is heading for a substantial victory in large part because Labour's leaders are so unreconstructed. But it would be a mistake for the Conservatives to ignore the lessons of the master himself. As Trotsky once put it, "You may not be interested in the dialectic, but the dialectic is interested in you." The financial crisis suggested that the economic system is worryingly fragile. The vote for Brexit suggested that millions of people are profoundly unhappy with the status quo.

The genius of the British system has always been to reform in order to prevent social breakdown. This means doing more than just engaging in silly gestures such as fixing energy prices, as the Conservatives proposed this week (silly because this will suppress investment and lead eventually to higher prices). It means preventing monopolies from forming: Britain's antitrust rules need to be updated for an age where information is the most valuable resource and network effects convey huge advantages. It means ending the CEO salary racket, not least by giving more power to shareholders. It means thinking seriously about the casualisation of work. And it means closing the revolving door between politics and business. The best way to save yourself from being Marx's next victim is to start taking him seriously. ■