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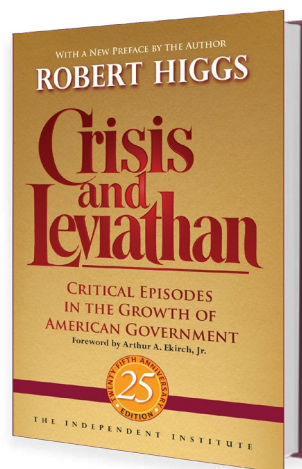
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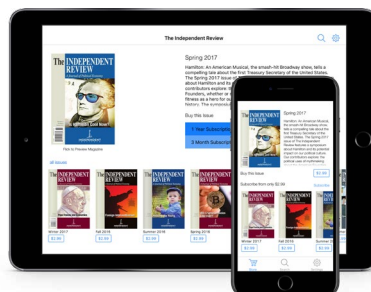
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# Was Karl Marx a Public-Choice Theorist?

— ◆ —  
MICHAEL C. MUNGER

[I] still consider myself part of the “left,” but it’s a “left” that mostly only exists in my mind. It’s a “left” that believes that the redeemable parts of Marx reveal him as one of the first public choice thinkers; so he’s of the “right” too.

—W. Kindred Winecoff, “Romney! Obama! Same Effing Difference”

**M**y introduction to the writings of Karl Marx was in 1977, when I was a college sophomore, at the hands of my Davidson College professor Ernest F. Patterson. “Red Ernie” was a student of Clarence Ayres, a luminary of the Texas Institutional School. As a consequence, it may be that my situating of Marx as an institutionalist and public-choice innovator has to do as much with how I learned Marx’s ideas as with what he actually wrote.

But I don’t think so. Marx, like Adam Smith, is often quoted or referenced but rarely actually read. And like Smith, Marx rewards a careful reading. Much of Marx’s comprehensive view is wrong, in some cases catastrophically wrong. But, as W. Kindred Winecoff (2012) claims, the “redeemable parts” of Marx show some profound insights into the problems of capitalism in democratic states.

In this essay, I outline (briefly, with the problems of superficiality that brevity entails) the main parts of Marx’s social theory. Then I discuss his anticipation of three areas of “public-choice” theory before drawing conclusions.

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## An Overview of Marx and *Das Kapital*

The short version of “Marxism” goes like this: the motor animating historical change is class struggle. Two large-scale social phenomena condition class struggle: institutions and ideologies. Loosely, institutions are the set of formal and informal rules that create the context for struggle, and ideologies are the set of norms and shared consciousness that create the justifications for that struggle or for accepting existing conditions without struggle.

There is dialectical conflict and evolutionary change in each of the three domains—class struggle, institutions, and ideologies. The underlying cause, the prime mover, is always class struggle, which in most institutional contexts is a political struggle. The form of the political struggle may be violent revolution outside of current institutions or the takeover of existing institutions under the rules; it depends. There is a deep schism in Marxist practice between those who favor active revolution—for which early Marx can be cited as an authority—and those who favor parliamentary or (in the United Kingdom) Fabian socialist takeover—for which late Marx can be invoked.

Evolutionary forces are also at work on institutions and ideologies, or the shared, culturally determined belief systems called “consciousness.” Generally, institutions evolve more or less continuously, as the logic of feudalism first and then market systems have grinded along, given the participants’ self-interests. Though Marx himself (unsurprisingly) did not use game theory or even a simple “prisoners’ dilemma” scenario, many of his arguments and conclusions are easily adapted to this logic. Members of ruling classes, either the nobility in feudalism or capitalists in markets system, individually do what they perceive as being in their self-interest. But the aggregate consequences are the destruction of the wealth and sources of power of the ruling class for any institutional arrangement that contains “contradictions” or inconsistencies between individual incentives and group outcomes.

Ideologies, in contrast to institutions, are relatively persistent and change only in abrupt and possibly chaotic bursts. In evolutionary terms, this process is more like the “punctuated equilibrium” of species replacement than the incremental change represented by adaptation within a species. Ideologies are an important part of the “superstructure” that is built on top of institutions, and the persistence of the hard but brittle superstructure is in tension with the relatively plastic but powerful evolution of underlying institutions and economic relations.

Marx saw ideas and ideologies at best as epiphenomena and at worst as stupefying galimatias. As he saw it, only economic relations, in the form of the institutions that condition class struggle, will evolve according to a definite, scientific materialistic dialectic. Of course, Marx himself wrote about ideas, and he thought that those ideas mattered. But he thought of himself as doing physics, identifying the material laws of the motion of societies. These laws weren’t ideas at all, but a description of the underlying forces that were clearly at work in the world for anyone with eyes to see. That’s the reason why volume 1 of *Kapital* is often read, volume 2 is sometimes read or at least

started, and volume 3 was never actually completed by Marx, and at this point is read only by poets. His “method” was proof by forward reference, writing down the main outlines in volume 1 and promising to return to flesh out the details later. When the details proved difficult and in fact impossible to write down, Marx turned to mysticism about the future and invective about the perfidy of his enemies.

In a market system, as Marx saw it, the institutions of *markets* for production and of *capitalism* (with most profits going to owners of capital) for distribution were supported by an ideological superstructure that united a mythology of “primitive accumulation” and Judeo-Christian guilt. Marx was working on a genuine puzzle, one that today we might paraphrase this way: Why is it that the people who work hard and sweat, who have to *shower after work*, devote all the effort, while the people who sit around, *shower before work*, put on a suit, and stay in the air-conditioning get paid so much more?

The answer, according to the classical economists such as Adam Smith, is that the poor are poor through no fault of their own directly, but poverty is the visitation of the punishment of the sins of their fathers. Specifically—and this is most clearly spelled out in chapter 26 of volume 1 of *Kapital*—people who are poor now are the descendants of people who long ago lacked the character and moral qualities that would have led to saving. As Marx put it,

[T]he accumulation of capital presupposes surplus-value; surplus-value presupposes capitalistic production; capitalistic production presupposes the pre-existence of considerable masses of capital and of labour power in the hands of producers of commodities. The whole movement, therefore, seems to turn in a vicious circle, out of which we can only get by supposing a primitive accumulation [what Adam Smith had called “previous accumulation”] preceding capitalistic accumulation; an accumulation not the result of the capitalistic mode of production, but its starting point. (1887, vol. 1, chap. 26)

My parents were careful, thrifty, and prudent; consequently, I have enough capital to buy tools and a factory. Your parents were dissolute, profligate spendthrifts, so you have to work and sweat.

Marx’s reaction to this claim has to rank as one of the great rhetorical turns in the history of economic thought. The argument should be quoted at some length (I apologize for the snips, but I have tried to leave all the bones of the claim intact):

This primitive accumulation plays in Political Economy about the same part as original sin in theology. Adam bit the apple, and thereupon sin fell on the human race. . . . In times long gone by there were two sorts of people; one, the diligent, intelligent, and, above all, frugal elite; the other, lazy rascals, spending their substance, and more, in riotous living. Thus it came to pass

that the former sort accumulated wealth, and the latter sort had at last nothing to sell except their own skins. And from this original sin dates the poverty of the great majority that, despite all its labour, has up to now nothing to sell but itself, and the wealth of the few that increases constantly although they have long ceased to work. . . . In actual history it is notorious that conquest, enslavement, robbery, murder, briefly force, play the great part. . . .

The capitalist system presupposes the complete separation of the labourers from all property in the means by which they can realize their labour. As soon as capitalist production is once on its own legs, it not only maintains this separation, but reproduces it on a continually extending scale. The process, therefore, that clears the way for the capitalist system, can be none other than the process which takes away from the labourer the possession of his means of production; a process that transforms, on the one hand, the social means of subsistence and of production into capital, on the other, the immediate producers into wage labourers. . . .

The economic structure of capitalist society has grown out of the economic structure of feudal society. . . . The immediate producer, the labourer, could only dispose of his own person after he had ceased to be attached to the soil and ceased to be the slave, serf, or bondsman of another. To become a free seller of labour power, who carries his commodity wherever he finds a market, he must further have escaped from the regime of the guilds, their rules for apprentices and journeymen, and the impediments of their labour regulations. Hence, the historical movement which changes the producers into wage-workers, appears, on the one hand, as their emancipation from serfdom and from the fetters of the guilds, and this side alone exists for our bourgeois historians. But, on the other hand, these new freedmen became sellers of themselves only after they had been robbed of all their own means of production, and of all the guarantees of existence afforded by the old feudal arrangements. (1887, vol. 1, chap. 26)

Thus, workers are separated from their work, or “alienated,” twice. First, they work with tools and equipment they do not own.<sup>1</sup> Second, the products or results of their labor are immediately taken from them and sold. This process of *commodification*, both of labor and of the food and products needed to live, forces workers to earn money incomes to survive but prevents them from enjoying what they produce. They earn neither the full monetary reward from *selling* the products nor the full psychic reward they would obtain from *consuming* what they have made.

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1. Upton Sinclair famously said, “Private ownership of tools, a basis of freedom when tools are simple[,] becomes a basis of enslavement when tools are complex” (1933, 10). All the twelve “principles” are worth reading and will sound familiar to anyone who has been following Alexandria Ocasio-Cortez.

This idea of alienation and labor as the (sole) source of value, both economic and psychological, is the weakest part of Marx's theoretical edifice. Marx is fundamentally Aristotelian in his ethical system, and the hierarchy of "value in use" as superior to "value in exchange" is simply an underlying, and undefended, assumption.

The reason the assumption is important is that it is one of two moving parts of the model. The other is the quest for profits by capitalists. Exploitation of labor and the quest for profits from cutting prices work together to lead to crisis. Since the only source of value is labor, the only source of profit, ultimately, is the squeezing of additional surplus value out of labor through the commodification inherent in contracting for workers. Since workers are numerous, they also constitute the output market for consumer goods. This "contradiction," squeezing workers with lower wages but then cutting prices to try to sell more output, will eventually bankrupt the system.

As I said at the outset, space constraints preclude any reasonably full consideration of Marx's view; I'll have to leave it at what I have given here. In the next section, I turn to Marx as a "public-choice" theorist.

## Marx's Public-Choice Insights

There are three areas where Marxist theory anticipated public choice in important ways: (a) Baptists and bootleggers; (b) interest groups and collective action; and (c) rent seeking and antitrust.

### *Baptists and Bootleggers*

One of the most famous tropes of public-choice work on regulation is the "Baptists and bootleggers" idea, usually associated with Bruce Yandle's (1983) paper in *Regulation*.<sup>2</sup> Yandle, then executive director of the Federal Trade Commission, noticed that attempts at regulatory reform often ran into blocking coalitions surprisingly composed of what seemed like completely different interests. The phrase itself came from opposition to ending Prohibition, which in Yandle's view engendered an odd alliance. One opponent to the Twenty-First Amendment was the "Baptists," or those who had moral reasons to keep in place the prohibition on the manufacture, sale, and consumption of alcohol. The other opponent, with whom the Baptists would never have consorted otherwise, was the "bootleggers," or those who profited from selling alcohol illegally. The bootleggers depended on the police to keep out the low-cost, high-quality competition that legalization would have released and thus put the bootleggers out of business.

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2. Interestingly, Yandle's paper has been formally cited only three hundred times, according to Google Scholar. But a Google search for the phrase "Baptists and bootleggers" turns up nearly five thousand references. The notion has become so popular now that many who use it do not identify it with its source. A price of success, it seems.

Yandle's question was deceptively simple: Deregulation is often objectively beneficial to consumers and to the vitality of the industry, but when is deregulation likely to happen? Hint: the answer has little to do with the objective benefits of deregulation because it is . . . political.

If that sounds familiar, it's because Marx had already made that argument in many contexts. To Yandle's great credit, he fully acknowledged the connection. As Yandle put it, "Economists from Adam Smith on (*and including Karl Marx*) have realized that government regulation is a sword that cuts in both directions, and all have called for reforms to improve the good regulations and prune the bad" (1983, 12, emphasis added).

In fact, Marx argued at great length (of course, if Marx argued anything, it was always "at great length"!) that the beneficiaries of regulation were more likely to be the centralized capitalist interests than consumers or small competitors. Gabriel Kolko gives one of the best examples of the application of Marx's approach in *The Triumph of Conservatism* ([1963] 1977). Kolko's ("Marxist") thesis is that the moral basis for regulation is simply co-opted, which he demonstrates in the case of transport regulation or the fixing of shipping fees by the Interstate Commerce Commission. The "bootleggers" (my characterization, not Kolko's) were the large railroads, their labor unions, and large shipping centers that could pay kickbacks to the railroads.<sup>3</sup> The "Baptists" were those who offered a credulous public the soothing mythology that regulation was supposed to help consumers. Kolko is scornful of this coalition, arguing that regulation was catastrophic for small shippers and consumers. There are many other examples of Marxist analyses of this phenomenon, where the "noble defender" of the "little guy" is actually using Baptist rhetoric to serve the powerful bootleggers.

One of the most interesting applications of the "Marxist" approach in the context of Baptists and bootleggers is the story of Upton Sinclair and the meatpacking industry. Most people "know" of how the muckraker Sinclair exposed filth and disease in the commodity markets for meat and credit him with being the catalyst for government action to clean up the industry. The problem with that story is that it's completely untrue. For one thing, Sinclair's book *The Jungle* ([1906] 2003) was a work of fiction; Sinclair himself knew little about the industry but thought he was going to help the workers in meat-processing plants. Second, and more to the point, he found himself an unwilling conscript as Baptist to the packing industry's bootleggers. It turns out the meatpacking industry was able to use the inspection process to make the public trust products that in fact still had many safety problems. If anything, the universal government seal of "health inspection" meant that large meatpacking firms had even less incentive to worry about a reputation for rotten meat. Regulation protected the *industry*, not consumers or workers.

How do I know that? Upton Sinclair told me—or, rather, told everyone. But no one listened. The absurd narrative about how Sinclair saved the meat industry from itself

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3. Kolko published his book in 1963 and then did a second edition in 1977. One might wonder whether Kolko updated his work to cite Stigler 1971. He did. More of "us" should update our work to cite Kolko.

through inviting federal regulation has now achieved the status of urban legend, often taught to school children and repeated by credulous progressives (I've heard it in faculty meetings!). It is worth considering the actual story, detailed in Kolko ([1963] 1977, 98–108). Here's what Sinclair had to say about the implementation of federal regulation in meatpacking: “Concerning ‘The Jungle,’ I wrote that ‘I aimed at the public’s heart, and by accident I hit it in the stomach.’ I am supposed to have helped clean up the yards and improve the country’s meat supply, though this is mostly delusion. But nobody even pretends to believe that I improved the condition of the stockyard workers” (1932, 175–76).

Kolko also cites Sinclair’s elaboration of what is clearly a straightforward “public-choice” explanation of the establishment of regulation in meatpacking:

The Federal inspection of meat was, historically, established at the packers’ request. . . . [I]t is maintained and paid for by the people of the United States for the benefit of the packers. . . . [M]en wearing the blue uniforms and brass buttons of the United States service are employed for the purpose of certifying to the nations of the civilized world that all the diseased and tainted meat which happens to come into existence in the United States of America is carefully sifted out and consumed by the American people. (Sinclair 1906, 612–13)

Clearly, Sinclair was upset at having been conscripted as a “Baptist” so that industry bootleggers would get favorable treatment. In any case, the usual narrative about regulation being salvation for workers is inconsistent with the facts. There is nothing in the Marxist approach that suggests regulation will be anything other than “established at the industry’s request.”

### *Logic of Collective Action and Rational Irrationality*

Marx’s conception of interest-group competition is complex. It is often mischaracterized as expecting the proletariat, or “working class,” to organize and achieve its goals through collective action. But Marx, particularly after 1854, was increasingly pessimistic about the ability of the “group” to form effectively. Earlier, in the *Communist Manifesto*, he had been more optimistic. To begin with, “the history of all hitherto existing society is the history of class struggles” (Marx and Engels 1848, chap. 1). Class,<sup>4</sup> for Marx, is the overarching determinant of economic interest. Other

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4. More specifically, class can be defined this way: “In the process of production, human beings work not only upon nature, but also upon one another. They produce only by working together in a specified manner and reciprocally exchanging their activities. In order to produce, they enter into definite connections and relations to one another, and only within these social connections and relations does their influence upon nature operate—i.e., does production take place. . . . These social relations between the producers, and the conditions under which they exchange their activities and share in the total act of production, will naturally vary according to the character of the means of production” (Marx 1847, chap. 5).



identities, be they ethnic, religious, or patriotic nationalism, are ideological and create “false” consciousness, detracting from acting on class interests.

The notion of “political” struggle is central, and embedded in the notion of politics is Marx’s recognition of the collective-action problem. As he put it, “Political power, properly so called, is merely the *organized* power of one class for oppressing another” (Marx and Engels 1848, chap. 2, emphasis added). I have emphasized the term *organized* here because Marx was well aware, even in 1848, that the difference between a shared interest and an organized interest is the key to politics. We are told later: “This organisation of the proletarians into a class, and, consequently into a political party, is continually being upset again by the competition between the workers themselves. But it ever rises up again, stronger, firmer, mightier. It compels legislative recognition of particular interests of the workers, by taking advantage of the divisions among the bourgeoisie itself” (Marx and Engels 1848, chap. 5).

This is not a fully fleshed-out theory of collective action and the problems of group organization. But Mancur Olson, to his credit, recognizes that Marx had a theory of politics that depended on the organization of self-interested—*not* group-interested, but self-interested—individuals into structures capable of exerting power (1965, 102–4).

Olson’s critique of Marx is telling:

Many critics attack Marx for emphasizing self-interest and individual rationality too much. They feel that most people must not *know or care* what their class interests are, since class conflict is not the overwhelming force Marx thought it would be.

[But] it is not in fact true that the absence of the kind of class conflict Marx expected shows that Marx overestimated the strength of rational behavior. On the contrary, [the problem is] the predominance of rational utilitarian behavior. *For class-oriented action will not occur if the individuals who make up a class act rationally.* (1965, 105, emphasis original)

In other words, Olson fully credits Marx with inventing the notion that politics is the competition of organized groups and that such interests would be based on the rational *self-interest of individuals* rather than of larger, analytically collective units. A common caricature of Marx is his misplaced optimism about altruism or collective consciousness, but that’s not an accurate portrait. The dispute over the effectiveness of collective action by groups of people who have a common interest is *institutional*. Ultimately, the ability of collections of individuals to organize and exert effective political pressure comes

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The *consciousness* of shared interests and opposed interests, with reference to the relation of the person to the control of the means of production, defines class. There is no obvious or necessary relation between class and the level of wealth or income an individual enjoys. As a consequence, such work as that done by Allan Meltzer and Scott Richard (1981) is not consistent with the Marxist conception of class but is talking about something else.

down to what we now think of as a standard public-choice question, based on the work of James Buchanan and Gordon Tullock (1962), Ronald Coase (1960), Douglass North (1990), and Elinor Ostrom (1990). If the transaction costs of organizing are low, then class interests of the proletariat may be expressed either through revolutionary action or effective party representation. If transaction costs are higher for the working class than for elites, then political power will be sustained, and working-class interests will not be expressed effectively. Marx deserves credit for seeing much, though not all, of the components of a transaction-costs-based theory of rational individuals forming effective interest groups.

### *Rent Seeking and Antitrust*

Much of the Progressive “reforms” of the late 1890s and early 1900s were based on “trust busting,” or breaking up large corporate enterprises that possessed what was seen as excessive market power, often verging on monopoly. Marx would have been very skeptical of the value of this approach to reform because the entailed distinction between competitive markets and monopoly would have made no sense to him.

Marx was a fan of markets and of the power of capitalism to create a stock of physical productive capacity. But his idea of competition was much closer to the Austrian view, in particular the view later expressed by Joseph Schumpeter. For Marx, the tendency toward concentration and monopoly are simply part of capitalism because for him the separation between politics and markets often assumed by modern social scientists is nonsense. Capitalists seek to increase profits. By far the most effective way to increase profits is to secure control over political power and use that power to gain protection from competition, to impose price-fixing agreements, and to foreclose entry by new firms.

The objection often made by people who think they are refuting Marx is to claim that under competitive markets such attempts at cartelization are likely to fail unless the state steps in to help. Well, obviously. The distinction between “market” and “state” is nonsense in a political context, where politics is the expression of organized economic power. In Marx’s terms, “the executive of the modern state is but a committee for managing affairs of the whole bourgeoisie. . . . The ruling ideas of each age have never been the ideas of the government” (Marx and Engels 1848, chap. 2). And then: “[A]s a rule, regulation is acquired by the industry and is designed and operated primarily for its benefit. . . . We propose the general hypothesis: every industry or occupation that has enough political power to utilize the state will seek to control entry. In addition, the regulatory policy will often be so fashioned as to retard the rate of growth of new firms.” Okay, fine, I was messing with you. The latter statement is not from Marx, but from George Stigler (1971, 3). But that’s the point: Marx *invented* Chicago-style “theory of economic regulation” analysis. Consider Marx’s view of the financial industry:

[The focus on financial profit rather than on production] is the abolition of the capitalist mode of production within capitalist production itself, a self-destructive contradiction, which represents on its face a mere phase of transition to a new form of production. It manifests its contradictory nature by its effects. It establishes a monopoly in certain spheres and thereby challenges the interference of the state. It reproduces a new aristocracy of finance, a new sort of parasites in the shape of promoters, speculators and merely nominal directors; a whole system of swindling and cheating by means of corporation juggling, stock jobbing, and stock speculation. It is private production without the control of private property. (1887, book 5.3, chap. 27)

In a recent piece (Munger and Villarreal 2019), it was argued that this tendency is inherent in capitalism because at some point the declining marginal profitability of investing in new products and new productive capacity will fall below the marginal returns to turning toward a political strategy, and investing the first dollars in “investments” in lobbying and rent seeking.<sup>5</sup> And once the firm is beholden to government, the distinction between state and market is forever blurred.

## Conclusions

Let me begin my closing with two caveats. First, many of the things Marx asserted were wrong, factually and theoretically mistaken. His predictions about future events, both during and after his lifetime, were systematically incorrect. Second, although I accept that the thinker’s responsibility for disciples’ uses of his or her thoughts is limited, that responsibility is not zero. The most egregious genocides and terrors in human history have explicitly used Marx and Marx’s thoughts as legitimations and in some cases blueprints.

Nonetheless, although Marx’s prescriptions and predictions about the ideal society to come have proved ludicrous, his critique of capitalism in democracies has proved useful and in fact prescient. There are important elements of what we now think of as “public-choice” theory in Marx’s works, even to the extent of their being ur-texts. I have identified three key elements (Baptists and bootleggers; interest groups and collective action; rent seeking and antitrust) as being central parts of Marx’s view. It is unsurprising that thinkers of the left still find Marx useful, but I would also argue that

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5. Obviously, the Munger–Villarreal claim is boring old hat for those on the left. And the perspicacious observers from the pro-market side are also quick to concede the tendency. As Deirdre McCloskey says, “The bourgeoisie is far from ethically blameless. The newly tolerated bourgeoisie has regularly tried to set itself up as a new aristocracy to be protected by the state, as Adam Smith and Karl Marx predicted it would” (2016, 641). She is speaking in terms of the rhetorical turn that gave moral authorization to commercial activity in this instance, but McCloskey has also generally been an effective advocate for a more careful and close reading of Marx.

students of public choice should read Marx to better understand and (possibly) answer the legitimate concerns and critiques Marx raises.

Perhaps most important, I would want to echo Brian Doherty's exhortation not to "blame Marx for cultural Marxism" (2018). Market advocates bristle when progressives criticize capitalism for manipulating government; many public-choice advocates always say in response, "That's not capitalism, that's crony capitalism."<sup>6</sup> Marx would say there is no important difference except on your office whiteboard, and he has a point. But market advocates and conservatives are quick (and, frankly, sloppy) to label as "Marxist" any proposal that happens to increase government control or the domain of collective action.

This tendency has been greatest and perhaps the greatest distraction in the area of "cultural Marxism." As Doherty puts it,

After the horrific deaths of millions, global communism may have been discredited as a viable economic system, but its proponents want to sneak it perniciously through the back door via cultural decadence.

It may be comforting to believe your ideological foes are dupes of manipulative intellectual fiends. But declaring that advocates of multiculturalism, feminism, and gay rights are the pawns of dead Jewish communists is both mistaken as a matter of cultural history and foolish as a way to sell an alternate ideology. You won't win the day by treating people who merely disagree with you as stalking horses for socialist tyranny. (2018)

The solution I propose is to give Marx his due, to recognize that some of the problems he identified in the tendencies in capitalism in democracies have in fact proved disappointingly accurate. And when you teach a public-choice class, assign some Marx. His work is interesting, and students are more apt to understand the problems with Marxist theory if they have actually read it.

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6. This argument is made at greater length in Munger 2019.

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