
From the Instructor

Nicholas wrote this paper for my WR 150 course that surveys debates surrounding the free market. The second major paper in the course challenges students to contend with two uncompromising visions of the market's virtues and evils: Karl Marx's narrative of exploitation and estranged labor in *The Communist Manifesto* vs. John Galt's forceful speech at the end of *Atlas Shrugged*, through which Ayn Rand asserts that competition alone can engender individual autonomy and national prosperity. As a writer, the young Marx exemplifies many of the lessons that I teach my students. He provides an insightful and consistent framework for analysis—class relations—but does so through an elegant story with clear protagonists, antagonists, and a compelling narrative of historical struggle. Rand consciously inverts aspects of Marx's narrative, contrasting “men of ability,” personified by Galt himself, with the weaker strata of society who seek shelter from the vicissitudes of struggle.

Nicholas demonstrates in this paper his capacity to grasp the core points of contention between Rand and Marx, but also to elucidate the relevance of their grand visions for contemporary political debates in clear, insightful, and often clever prose. Nicholas frequently settled on a theme and argument from the first draft of his papers, and spent subsequent drafts developing those ideas further. He made good use of scholarly sources to substantiate his argument in this paper, especially when demonstrating that Rand, far from being a marginal twentieth-century thinker, has attained a mythical status for the contemporary American Right that is nearly on a par with the cult of Marxism in the scholarly and political movements of the past century. Nicholas makes this complex subject very approachable by writing in simple prose and consistently staying on point throughout the paper.

— David Levy

WR 150: The Free Market: Liberating or Exploitative?

From the Writer

My essay, “That Ayn’t Rand: The Sensationalization of Objectivist Theory,” discusses the role of objectivism in contemporary American politics. I discuss the ideological debate between Karl Marx and Ayn Rand in the context of the Occupy Wall Street Movement. By comparing Ayn Rand’s own writing with that of one of her friends and contemporary advocates, Harry Binswanger, I attempt to illuminate the destructive simplification that modern objectivists have adopted in an attempt to gain recognition. Objectivism has struggled since its formation to find an audience among intellectuals and academics, who have largely dismissed the theory. As a result, Rand’s theories have been condensed further and further over the years to maximize impact and audience. In this paper, I attempt to demonstrate how this reduction of Rand’s theories actually hurts the objectivist cause rather than helping it. I hold that this oversimplification is partially to blame for the Occupy Wall Street movement’s distrust of capitalism as a system. I find that it is obvious why Occupy protestors loathe large manipulative corporations and the mega-rich, but less so why that distrust would extend to capitalism, a theoretical system of organization never fully implemented anywhere.

— Nicholas Supple

THAT AYN'T RAND: THE SENSATIONALIZATION OF OBJECTIVIST THEORY¹

Fifty-seven years after the publication of *Atlas Shrugged* and thirty-two years after Ayn Rand's death, Rand's theories receive as much popular mention as they ever have. The conservative Tea Party movement has adopted Rand's conception of a minarchist government as their core platform. Meanwhile, Karl Marx, though more famous, has all but disappeared from the contemporary American political debate and receives mention only in cheap political attacks. Cold war tension pitted US capitalism against Russian communism, labeling any and all of Marx's theories and writings as inherently anti-American, totally removing them from public debate. And yet, in spite of this, Marx's theories and visions still reverberate within the political left who have been unable to ignore the systemic inequalities in the American economy. The stigmatism placed on Marx has robbed the political left of an ideological platform and left them only with a series of empirical observations and tendencies in thought. This blacklisting of Marx and simultaneous worship of Rand has left us with a debate between ideological reasoning on the right and empirical observations on the left. This has removed the possibility of logical progression, and left only the possibility of a victory in political popularity. This breakdown in logical discussion has been a key contributing factor in the crippling stalemate of contemporary American politics.

The focal point in the modern debate between these two great thinkers is the extent to which the federal government should regulate and tax private industry and the so-called job creators who manage it. The Occupy Wall Street movement galvanized the debate into a struggle

between the 99% and the 1%, a divide not between classic upper and lower classes, but between those making above \$380,000 a year and those making any less (Dewan et al.). Given that the median salaries of stereotypical upperclass professions like doctors and lawyers are \$187,200 and \$113,530 respectively, it's clear that the \$380,000 threshold is far beyond any classic conception of upper class. Far from your typical successful suburbanite, the 1% is a far more exotic mix of entrepreneurs, CEOs, trust-funders, and finance specialist.

This classification of haves and have-nots is a far cry from the proletariat and bourgeoisie divide Marx imaged over 150 years ago. Likewise, the rise of the global economy has stratified political classes in a way Rand could not have foreseen. With this shift in class identity and equally important shift in world economies, we can no longer rely on the pictures of society Marx and Rand painted, but rather must focus on the principles they established in response.

At the heart of this socioeconomic debate is the question of who creates value: is value primarily created by man-hours of labor or rather by the ingenuity of entrepreneurs in organizing the factors of production? In his time, Marx claimed that the capitalist owner exploits the labor of the proletariat worker, excising part of the value their work creates. Rand, in response, claimed that it is not the capitalists who exploit the laborers, but just the opposite: that the laborers live off of the ideas and mental efforts of the freethinking entrepreneurs.

Contemporary political commentators like Harry Binswanger have closely aligned Rand and ethical egoism with the conservative, pro-1% camp, but in doing so have simplified and reduced Rand's theories into a "common conception of selfishness" (Campos 81). In his *Forbes* OP/ED "Give Back? Yes, It's Time For The 99% To Give Back To The 1%," Binswanger makes the claim that "it is 'the community' that should give back to the wealth-creators." Binswanger—a former philosophy professor, published author, Board Member of the Ayn Rand Institute, and personal friend to Rand during her later years—is as well versed in Objectivism as any other living academic, and even he cheapens Rand's theories in popular media to attract a broad audience. In the piece, Binswanger bases his defense of the 1% on Rand's "pyramid of ability," which states,

the material value of your work is determined not only by your effort, but by the effort of the best productive minds who exist in the world around you. When you work in a modern factory, you are paid, not only for your labor, but for all the productive genius which has made that factory possible. (Rand 1064)

That is, the theory goes, industrialists aren't in debt to the factory workers who put their plan into action; rather, it is the factory workers who owe the industrialists for being given the plan of action. Where Binswanger parts from Rand is his hyper focus on the 'high-earners,' who in reality only represent a fraction of Rand's 'men of ability.' He equates ability with wealth, undermining Rand's chief intention to praise freethinking and ingenuity. Neither he nor Rand properly draw such a connection, and yet it has become a landmark assumption of the modern objectivist argument. In fact, most of the villains in Rand's *Atlas Shrugged*, the book Binswanger quotes at length, are themselves rich and powerful. The most notable of these is the character James Taggart, a rich industrialist Rand villainizes for his inability to think critically and independently from popular opinion and government edict (Thomas).

For all of Rand's focus on ability, ingenuity, and invention, Binswanger barely makes mention of it. Instead, he presupposes that profit is equal to value created and assumes all those who make a profit must themselves create value. Of course, Binswanger's writing is intentionally sensationalized to bait a response from the left-wing thinkers of the Occupy movements, but—far from harmless—this type of sensational simplification of Rand in right-wing rhetoric has made objectivism, and—by association—laissez-faire capitalism, the object of unapproachable disgust to many in the conversation. No matter how he frames it, Binswanger removes the possibility of logical argumentation when he makes statements like this:

Anyone who earns a million dollars or more should be exempt from all income taxes. Yes, it's too little. And the real issue is not financial, but moral. So to augment the tax-exemption, in an annual public ceremony, the year's top earner should be awarded the Congressional Medal of Honor. (Binswanger)

By pretending, even momentarily, that our current society is one of "voluntary trade, without force or fraud" (Binswanger), he alienates all those who

are not either already familiar with the theory, or already very rich. Earlier in the piece, Binswanger attempts to qualify and frame this statement by condemning the likes of Bernie Madoff, but he fails to recognize that, had he written this piece just a few years earlier, he would have been advocating awarding Madoff with the Congressional Medal of Honor. Binswanger opposes the profit of men like Madoff, but fails to build this opposition into his principled statements of theory.

Binswanger poses these provocative statements to elicit a response from the left-wing Occupy sympathizers, but the absence of a core left-wing ideology leaves them without a theoretical framework with which to evaluate his claims. This forces a mere empirical evaluation of his claims at face value which, given their sensational nature, leaves the left with no choice but to view Rand's work as "the philosophy of the psychopath, a misanthropic fantasy of cruelty, revenge and greed" (Monbiot). Had Marx been allowed in on the discussion, it could become a debate over theories of value or ethical egoism itself. The left would be challenging claims like "since profit is the market value of the product minus the market value of factors used, profit represents the value created" (Binswanger). In fact, Marx attacked this very idea in his own work, supporting instead a labor theory of value, according to which "the value of a commodity is determined by the socially necessary labor time contained in it" (Freedman 33). This means that the value created in the production of a good is a function only of the labor input. Working under this theory, Marx concluded that the profits of capitalists, who themselves put a very small amount of labor into each good produced, must represent a seized portion of the value created by the laborer. This theory would hold that all profits are extracted from the worker by the industrialist and therefore that the capitalist himself is nothing more than a leech on the production process. This is the core of Marx's exploitation theory of capitalism.

The glaring flaw in the labor theory of value is its inability to account for the effects of demand on price. The theory runs into further trouble in explaining the effects, on cost, of land and capital. In place of an objective theory like this, contemporary economics prefers a subjective theory of price as the interaction between the demand of consumers and the willingness to sell, or supply, of producers. Although some have attempted to adapt the labor theory to account for land and capital, none

have succeeded in subjectively spinning the theory to accommodate modern observations (Murphy 18). In the end, the labor theory of value has disappeared from the conversation due to its inability to account for newfound empirical economic observations.

Likewise, as we shall see, it is time for the objectivists' theory to cede to new economic insights. As Binswanger tells us, the objectivist theory of value is that "since profit is the market value of the product minus the market value of factors used, profit represents the value created." While intuitively appealing, this theory ignores the economic realities of our mixed global economy. Primarily, this theory would propose that monopoly profits (known as rents) —which are obtained by scaling back production so as to restrict supply and raise price—are the result of a value creation process. Monopoly rents are obtained by producing less of a valuable good, not by creating more value. While monopoly rents might have been a minor feature of the competitive post war 1950's economy Rand observed, monopoly rents are increasingly becoming the rule, rather than the exception, in today's global economy (Krugman). This theory likewise has trouble holding water in light of the growing importance of financial speculation in place of classic investment. Rand applauded investors who saved "money to risk on the untried and new" (1064), but as investment declines in our economy we see an equally important rise in speculation. Modern speculation like those in the derivatives, futures, and stock markets are a far cry from the business investments Rand observed. The investment of Rand's day was primarily the financing of new and expanding businesses, and, perhaps more importantly, they were investments in the new ideas those businesses represented, like Hank Rearden's investment in a new—untried—form of steel in *Atlas Shrugged*. The speculation that has taken over modern financial markets is not a gamble on an idea; rather, it's a gamble primarily on the actions of other players in the market. As Andre Santos Campos tells us,

speculation involves trading abstract values with the expectation of acquiring higher abstract values (e.g. trading derivatives and short-selling are speculative activities by definition), whereas investment involves fueling the productive activities of different assets. (94)

While this new kind of investment adds to the liquidity of classic business

investment, it simultaneously removes capital from that market, placing it instead into a secondary, purely speculative, market. Profits of financial companies operating in these speculative markets then do not represent the adding of value to the economy, as they do not actually contribute to the production of any good or service; rather, they represent a successful anticipation of the future value other firms would place on a given asset.

The reality is that Binswanger and the modern objectivists are not ignorant of these facts; instead, they pose their idyllic theory of profit simply to support the very notion that profit can be a moral attainment of wealth. The problem is that the objectivists seem to have largely forgotten the hypothetical nature of this proposition and have instead begun to take it as indisputable fact.

Perhaps inspired by Rand's solution in Galt's gulch, the objectivists seem to refuse to productively discuss their theories, preferring instead to declare ad nauseam the conclusions they've reached, as though they're simply waiting for everyone to realize they are right. In the course of doing so, their rhetoric has increasingly tended toward sensational and almost absurd claims, leaving left-wing empiricist no choice but to reject the theory as a whole after the claims fail to stand up to observation. To restart the engine of progress, we need an honest engagement, on both sides, with the origins of their core theories and claims, not to find a middle ground between Rand and Marx, but a road forward. Neither Rand nor Marx could have foreseen the shape and function of modern economies, and it's time we stop pretending they could have. In that vein, Binswanger and the right wing would do well to remember that the Occupy movements aren't inherently anti-capitalist; rather, they represent frustration with the systemic inequalities and injustices found in our global mixed economy. Rather than defending the notion of profit, the objectivists should be attacking the fraud and corruption that distort the very markets they are defending.

NOTES

1. Part of this title is borrowed from David MacGregor's philosophical analysis "It Ayn't Rand."

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NICHOLAS SUPPLE is a rising junior studying Economics and Mathematics in the College of Arts and Sciences and is President of the Kappa Sigma Fraternity on campus. Born and raised in southern Louisiana, Nick has gained a fascination with the variety of social edicts and distinct opinions found throughout these United States. In that vein, Nick would like to applaud his professor, David Levy, for an exceptionally well-balanced and objective discussion of free market capitalism.