

# History of economic thought

Lecture 5.

Marxian Economics

# Lecture plan

1. The concept of social development.
2. “Das Kapital” (“The Capital”) of Karl Marx: the structure and content.
3. The theory of surplus-value.
4. The secret of capitalist exploitation.
5. The schemes of simple and extended reproduction.
6. The problems of social justice and equality.

# 1. The concept of social development

- Karl Heinrich Marx (May 5, 1818–March 14, 1883) was a German philosopher, political economist, historian, political theorist, sociologist, communist and revolutionary credited as the founder of communism.
- Marx summarized his approach to history and politics in the opening line of the first chapter of *The Communist Manifesto* (1848): “The history of all hitherto existing society is the history of class struggles”.
- And the class struggle in accordance with Marx is the driving force of the world history.

- Main works: The Critique of Political Economy (1859), Das Kapital (The Capital) (1867).
- Marx analyzed capitalism as the historically transitional system. It is doomed for disappearance due to its own inborn contradictions.
- Each social system consists of 2 spheres: economic basis and social superstructure

- Economic basis is the totality of all the economic relations existing in society.
- The social superstructure includes juridical, political, cultural, religious and other spheres of social life.
- The economic basis determines in main the character and the development of the social superstructure.
- Essentially both economic basis and social structure should be in correspondence in any society.

- Should economic basis change, it causes more or less quick transformation of the whole social superstructure.
- The totality of economic basis and social superstructure constitutes the socioeconomic formation.
- In accordance with Marx's views the history of mankind passes through 5 socioeconomic formations: primitive-communal, slave-owning, feudal, capitalist and communist.
- The mechanism of transformation of one socioeconomic formation into another is a social revolution.

## 2. “Das Kapital” (“The Capital”) of Karl Marx: the structure and content.

- “The Capital” is the main work of Karl Marx where he set for his goal to discover the intrinsic tendencies of the capitalist system. It’s inner laws of motion.
- “Das Kapital” is the Doomsday Book of capitalism.
- It consists of 4 volumes (2500 pages). The first volume called “The Process of the Production of Capital” deals with the pure labor theory of value and analyzes the process of production under conditions of free competition.

- The second volume is called “The Process of Turnover of Capital” and the third volume “The Process of Capitalist Production on the Whole”. The fourth volume – “The Theories of Surplus Value”.
- The first volume deals with the process of capitalist production and the level of a separate firm enterprise.
- The second volume analyzes the motion of capital (its circulation and turnover), both at the micro- and macro-levels.
- The third volume contains the analyses of the distribution of surplus value and its concrete forms such as industrial profit, interest rate and land rent.



# 3. The theory of surplus-value.

- The production of surplus value is the key problem of the first volume of “The Capital”.
- In the first volume Marx analyses a world of perfect capitalism: no monopolies, no unions, no special advantages for anyone. It is a world in which sells at exactly its proper price and that proper price is its value. And the value of the commodity is the amount of labor it has within itself (in this sense Marx follows Ricardo).
- In so doing all the commodities will be priced according to the amount of labor, direct or indirect, that they contain.

- In this world there are two great protagonists of the capitalist drama: worker and capitalist.
- Worker is no longer the slave: he is a free bargaining agent who enters the market to dispose of the one commodity he commands – labor power. Under labor power is meant the complex of physical and mental abilities of a worker that make possible his production of goods.
- Capitalism is identified by Marx as a social system in which labor power becomes a commodity.
- And this commodity is sold and bought in strict accordance with its value.

- So it means that capitalists, while buying labor power of workers, pay them amount of money that is equal to the value of their labor powers.
- **How, asks Marx, can profit exist in such a situation, if everything sells for its exact value, then who gets the unearned increment? How can there be profit in the whole system if everything exchanges for its honest worth? It seems like a paradox.**

- Profits are easy to explain if there are monopolies that need not obey the leveling influences of competition or if we admit that capitalists may pay labor less than it is worth.
- Marx finds the answer to the dilemma in one commodity that is different from all the others. The commodity is **labor power**.
- Labor power as any commodity has 2 properties: value and use value.
- Value of labor power is measured by the amount of labor required to produce workers' ability to work. In other words, the value of workman is the money he needs in order to exist. It is his subsistence wage.

- But the capitalist, when hiring a worker, buys his labor power for the sake of its another property: use-value.
- The use-value of labor power consists of its ability to be the source of capitalist's profit.
- Marx revealed by his analysis that the unique source of capitalist profit is the unpaid work of the laborer which he called "surplus value".
- To understand how in reality labor power generates the capitalist's profit we should investigate the secret of capitalist exploitation.

## 4. The secret of capitalist exploitation

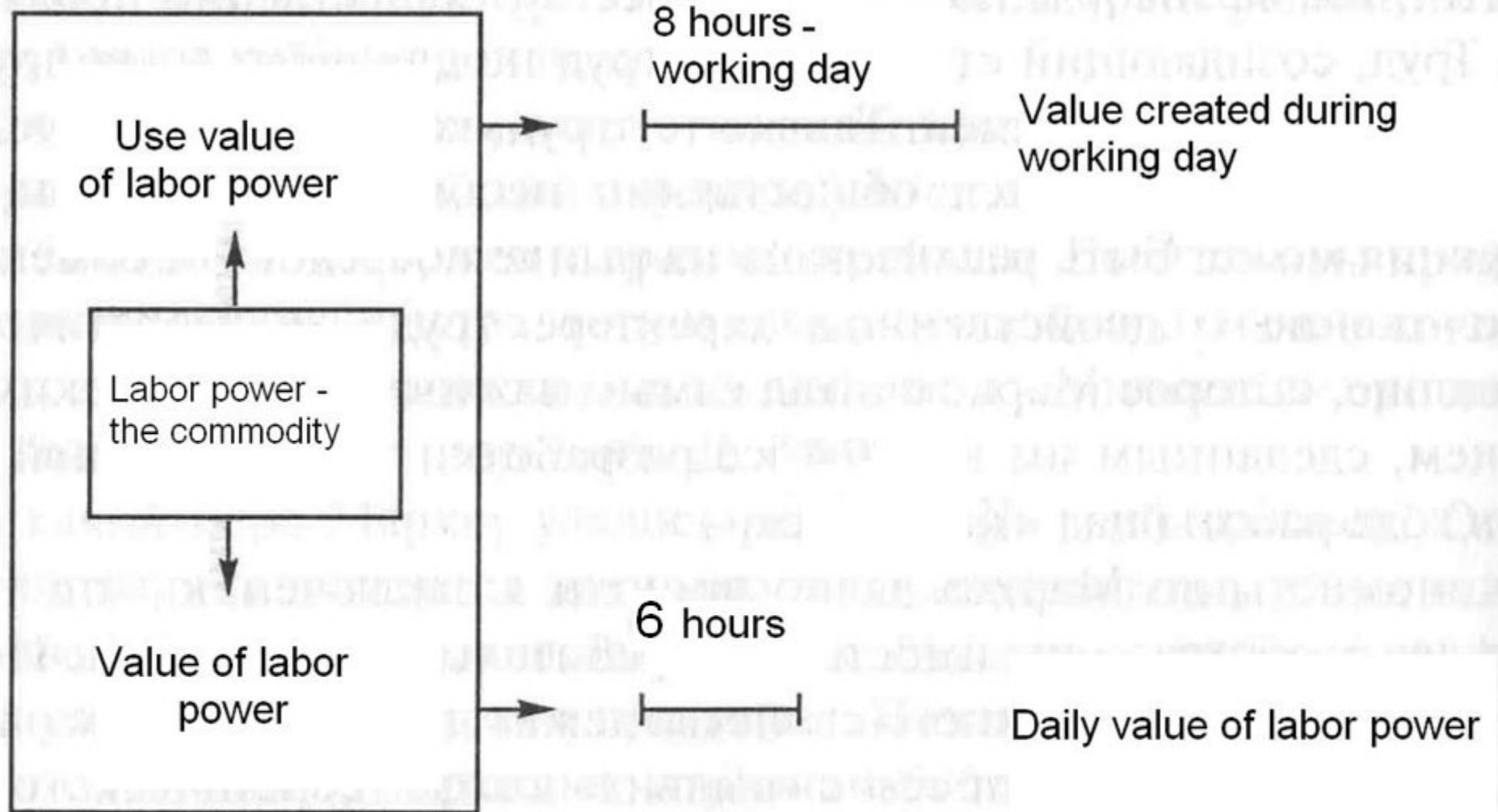
- The laborer who contracts to work for the capitalist can ask only for a wage that would be enough to keep a man alive. If it takes 6 hours of society's labor to maintain a working man then (if labor is priced at \$1 an hour) he is "worth" 6 dollars a day, no more.
- But the laborer who gets a job does not contract to work only 6 hours a day. That would be just long enough to support himself.
- On the contrary, he agrees to work a full 8-hour, or in Marx's time even a 10 or 11 hour day. Hence, he will produce a full 8 (or 10 or 11) hours' worth of value, but he will get for only six.

- His wage will cover his subsistence which is his true “value”. But in return he will make available to the capitalist the value he produces in a full working day. This is how profit is produced for the class of capitalists.
- Marx called this layer of unpaid work “surplus value”. In so doing the worker is entitled only to the **value** of his labor power. He gets it in full, but meanwhile the capitalist gets the full value of his workers’ whole working day. And this is longer than the hours for which he’s paid.

- That's why when the capitalist sells his products, he can afford to sell them at their **true value** and still realize the profit.
- But there arises the legitimate question: "how is it possible for the capitalist to arrange the affairs in such way?"
- It happens because the capitalist monopolizes one thing – access to the means of production. That's why within the social system the workers own only their labor power (as a factor of production) while capitalists own machines and equipment without which men and women cannot work.
- That's why the workers are made to sell their labor power to the capitalists.



- The following scheme represents the secret of capitalist exploitation (or how the capitalist appropriates the surplus value of laborers).



In so doing 2 hours of working day are taken by capitalist without any remuneration of the workers (unpaid labor of workers).  
These 2 hours create surplus value - the source of capitalist profit.

- In so doing all capitalists have profits, but they are all in competition.
- Competition makes them to expand scales of output. But expansion is not so easy. It requires more laborers, and to get them capitalist must increase the wages. So wages tend to rise because the value of labor power increases as the result of the increase of the value of means of subsistence required by the workers to be able to work and survive.
- Conversely, surplus value tends to fall.

- The capitalists meet the threat of rising wages by introducing **laborsaving machinery** into their plants. This will throw part of the working force back onto the street.
- This creates the industrial reserve army of unemployment.
- So capitalists substitute machines for men, but replacing laborers by machines capitalists reduces the number or proportion of workers: he's killing the goose that lays the golden eggs.
- At the same time, as the number of workers is reduced, their consumption is also reduced at inevitably the supply of the goods (output) exceeds the demand. A capitalist crisis is at hand.

- Marx proved that capitalist production is nothing but the chain of endless economic crisis, one succeeding another.
- What is the outcome of this tragic story?
- Marx pictured it at the end of the first volume of “The Capital” as the description of the Damnation:

- “Along with the constantly diminishing number of the magnates of capital, who usurp and monopolize all advantages of this process of transformation, grows the mass of misery, oppression, slavery, degradation, exploitation; but with this too grows the revolt of the working class, a class always increasing in numbers, and disciplined, united, organized by the very mechanism of the process of capitalist production itself... Centralization of the means of production and socialization of labor at last reach a point where they become incompatible with their capitalist integument. This integument bursts asunder. The knell of capitalist private property sounds. The expropriators are expropriated.”

- In brief, it means that capitalist production inevitably leads to social revolution by which capitalism is replaced by communist mode of production.

## 5. The schemes of simple and extended reproduction

- In accordance with Marx social reproduction is determined by the proportions of exchange between two sectors of national economy: production of investment goods and production of consumer goods.
- In the 2<sup>nd</sup> volume of “The Capital” Marx analyzed 2 variants of social reproduction: simple and extended. And he laid down the conditions, under which the reproduction is possible. It means, the conditions under which all the goods that are produced are sold to the consumers on one hand and the consumers have enough income to buy the goods offered to them.



- The conditions of social reproduction formulated by Marx have not lost neither their scientific nor practical significance and are used by modern researches who investigate the problems of social reproduction.

# 6. The problems of social justice and equality.

- Marx analyzed exploitation exclusively from scientific point of view.
- In accordance with Marx, exploitation results from the private ownership of the means of production by the class of capitalists.
- This way of distribution of means of production (factors of production) determines the corresponding distribution of incomes, under which the workers are inevitably underpaid, i.e. they are exploited by the capitalists.
- In so doing, Marx revealed economic ground for the exploitation and social injustice – the private capitalist property of the factors of production.
- The only way to annihilate both the capitalist exploitation and social injustice is to replace the private property by public property for the means of production through the way of social revolution.