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# **An Introduction to the Marxian Critique of Political Economy**

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# Introduction

Karl Marx (1818-1883) was an immensely influential philosopher, a detailed and critical reader of Classical Political Economy, and a socialist revolutionary. Even though ***The Communist Manifesto*** (co-signed with F. Engels, but mainly authored by Marx in 1848) is his most well-known and most politically influential work, his real contribution to economics can be found in his later writings ***Grundrisse*** (completed in 1858 and posthumously published 1941), three volumes of ***Capital*** (Vol. 1 in 1867, Vol. 2 in 1885, and Vol. 3 in 1894) and his detailed notes on Classical Political Economy, ***The Theories of Surplus Value*** (edited by Karl Kautsky and published in 1905-10).

# Introduction

His main influences can be geo-philosophically/  
schematically outlined as

the ***German idealist philosophy*** of the likes of Kant, Hegel, Schelling;

the ***French utopian socialist political thought*** of the likes of Fourier, Saint-Simon, Proudhon, and

the no non-sense ***British classical political economy*** of the likes of Smith, Ricardo, and Malthus.

# Introduction

It is somewhat misleading to think of Marx as the “father” of **actually existing communisms** of the twentieth century. Even though he may be an inspiration to these efforts/experiments, it is very difficult to glean from the pages of his writings a clear model of a socialist economy. On the other hand, Marx’s later writings constitute

(1) a systematic response and detailed critical commentary on all the preceding writing on Classical Political Economy (as he spent 12 years reading the economic literature available in his time in the library of the British Museum in London) and

(2) an attempt to “reveal **the law of motion** of modern society”.

# Introduction

In this second sense, it is important to note that the title of his main work is *Das Kapital* (**Capital**) and not, for instance, *Labor* or *Socialism*.

In short, the central thrust of the later and most relevant writings of Marx consists of a deeply analytical (more appropriately, *dialectical*) study of **the movement of Capital as the self-expansion of value** that builds up on the social **class** divisions.

# Commodity

**Exchange value** is the means by which all commodities could be directly compared. In addition to exchange value, commodities have two common qualities: they all have **use values**, and they are all produced by **human labor** alone.

However, **use value** cannot be the basis of **exchange value** because their use value is neither directly comparable in any quantitative sense nor reflective of the social relations that underpin production of commodities.

In this sense, the “scientific” treatment of commodities as objects in isolation from their social conditions of production is fetishisation of the commodities and reduction of them into mere objects with a life of their own. (Note the link/analogy between the psychological concept of “fetish”)

Therefore, the only element that was common to all commodities, directly quantitatively comparable, and an integral part of capitalist social relations, was the **labor-time** required for their production.

# Exchange

We need to juxtaposition

**C–M–C'** (Simple Commodity Circulation)

*with*

**M–C–M'** (Circulation of Money as Capital)

“The simple circulation of commodities—selling in order to buy—is a means to a final goal which lies outside circulation, namely the appropriation of use-values, the satisfaction of needs. As against this, the circulation of money as capital in an end in itself, for the **valorization of value** takes place only within this constantly renewed movement. The movement of capital is therefore limitless.” (Marx 1867/1976: 253)

# Labor

While the concept of **concrete labor** refers to the fact that each commodity is a product of a specific form of labor, the concept of **abstract labor** provides the concept of the **commensurability** of commodities qua products of human labor, regardless of their specific form. To put it differently, abstract labor is that which remains of human labor once all its concrete attributes and “sensuous characteristics” are subtracted.

Another way to think of the relation between concrete and abstract labor is to map this on the **pre-capitalist/capitalist divide**. In pre-capitalist/feudal societies, all labor were specific and concrete labor. Guilds were organized around trades. But with the advent of capitalism, both the technological developments pertaining to assembly line production and the increasing predominance of the profit objective in production (the shift from **simple commodity exchange** to **self-expansion of value**) lead to an abstraction of labor.

# Value and Abstract Labor

***Socially necessary abstract labor time*** (SNALT) "is the labour-time required to produce any use-value [commodity] under the ***conditions of production*** normal for a given society and with the average degree of skill and intensity of labour prevalent in that society" (Marx 1867/1976: 129; emphasis added).

***The value of a commodity***, then, is equal to the socially necessary abstract labor-time that is necessary to produce that commodity at any given moment, under given production conditions, regardless of the actual quantum of abstract labor-time spent on its production.

# Value of Labor Power

"...this worker must be **free in the double sense** that as a free individual he can dispose of his labour-power as his own commodity, and that, on the other hand, he has no other commodity for sale, i.e., he is rid of them, he is free of all the objects needed for the realization of his labour-power." (272-3)

"Therefore the labour-time necessary for the production of labour-power is the same as that necessary for the production of those means of subsistence; in other words, **the value of labour-power is the value of the means of subsistence necessary for the maintenance of its owner.**" (274; emphasis added)

"...the determination of the value of labour-power contains a historical and moral element." (275)

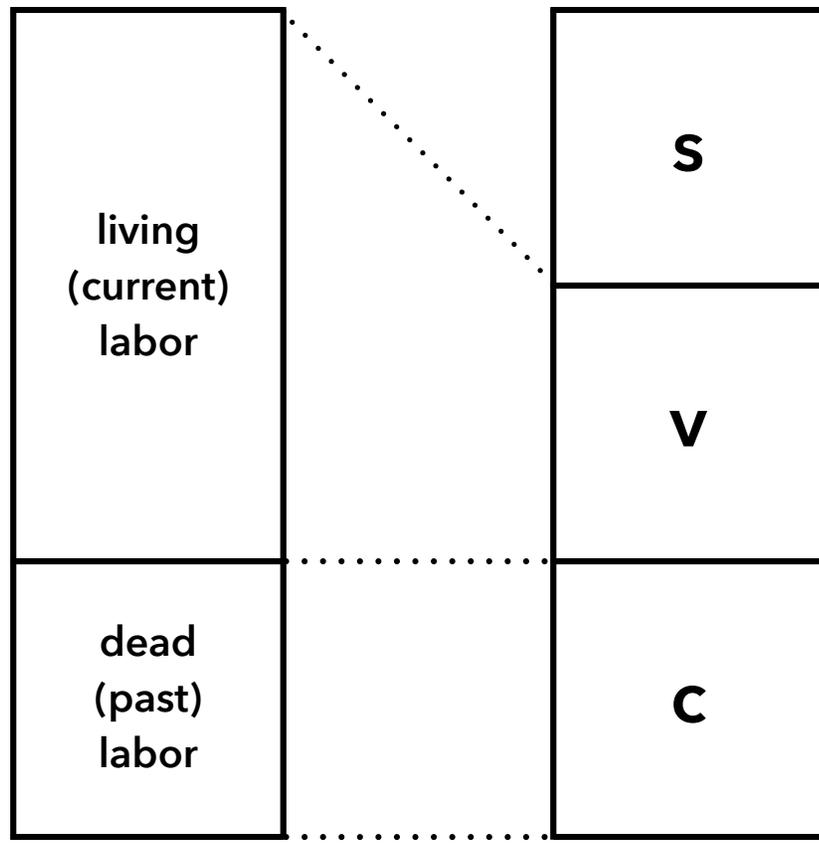
# Surplus Value

The difference between  $M'$  and  $M$  is surplus value. But where does the surplus value arise from? Does it arise from the ***sphere of circulation (exchange)*** or from the ***sphere of production?***

“Capital cannot therefore arise from circulation, and it is equally impossible for it to arise apart from circulation. It must have its origin both in circulation and not in circulation.” (268)

**labor**

**capital**



**capitalist class structure**

s: surplus value (mehr wert)

v: variable capital

c: constant capital

w: value of a commodity (wert)

$$c+v+s=w$$

s/v: rate of exploitation

s/(c+v): value rate of profit

# Necessary & Surplus Labor

Marx distinguishes between necessary and surplus labor.

***Necessary labor*** is the quantity of labor time necessary to produce the consumables customarily required by the direct producer to keep working.

***Surplus labor*** is the further, the **extra** time of labor the direct producer performs beyond the necessary labor.

Necessary and surplus are ***historically variable*** quantities.

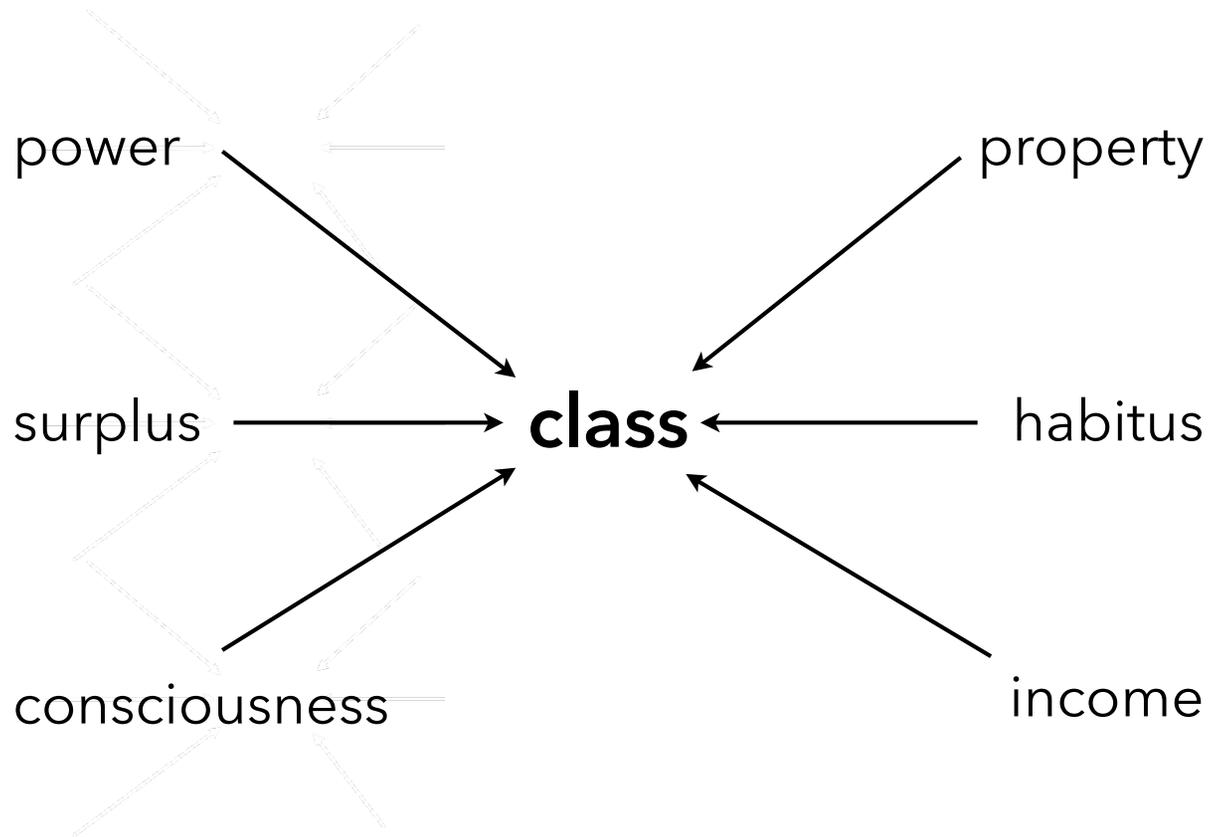
# Surplus Labor & Surplus Value

“The essential difference between the various economic forms of society, between, for instance, a society based on **slave labour**, and one based on **wage-labour**, lies only in the mode of in which this surplus labour is in each case extracted from the actual producer, the labourer.” (Marx 1867/1976: 217)

Marx uses the concept of **surplus value** only under capitalism.

“The capitalist directly engaged in production **directly** appropriates the **surplus-labor**, no matter under what categories he has subsequently to share this **surplus-value** with the landowner or with the lender of capital.” (Marx 1963: 85-6; emphasis added)

# Class



# Class Process

**Class process** is a social process composed of three moments:

**production** of surplus,

**appropriation** of surplus, and

**distribution** of surplus.

# Class Analysis

Class analysis is primarily concerned with the following set of questions:

Who **produces** the surplus?

Who **appropriates** the surplus?

Who **distributes** the surplus?

Who **receives** (a cut from) the surplus?

**Class structures** are differentiated from one another by way of answering these questions.

# Class Analysis

	Slavery	Feudalism	Capitalism	Communalism
Who <b>produces</b> the surplus?	Slaves	Serfs	Wage Laborers	Direct Laborers
Who <b>appropriates</b> and <b>distributes</b> the surplus?	Slave-owners	Lords	Capitalists (Board of Directors)	Direct Laborers
Who <b>receives</b> (a cut from) the surplus?	Subsumed (secondary) classes	Subsumed (secondary) classes	Subsumed (secondary) classes	All the members of the commune

# Productive Labor

**Productive laborers** sell their labor power to industrial capitalists and produce commodities (and value), and therefore they **perform surplus value** (which is then appropriated and distributed by the Board of Directors of the corporation).

“Productive labour is therefore—in the system of capitalist production—labour which produces surplus-value for its employer.” (Marx 1963: 396)

“The result of the capitalist production process is neither a mere product (use-value) nor a **commodity**, that is, a use value which has a certain exchange-value. Its result, its product, is the creation of **surplus-value** for capital.” (Marx 1963: 399)

# Unproductive Labor

**Unproductive labor** is that which produces no surplus value.

(1) When a work relationship has a non-capitalist exploitative form (producing no surplus value), the labor performed is unproductive.

“a singer who sells her song for her own account is an unproductive labourer.” (401)

Hence labor of feudal, slave, ancient, Germanic, Asiatic form is unproductive.

(2) Those who are employed in a capitalist workplace, who produce a condition of existence of the capitalist exploitation but do not directly produce surplus-value are also unproductive laborers. Those employers who work to reproduce the process of production of surplus value. (Accounting, security, management, etc.)

“[the unproductive labourer] performs a necessary function, because the process of reproduction itself includes unproductive functions.” (Marx 1885/1978: 209)

# Capitalism and its Discontents

## 1. Crisis in circulation

Theories of disproportionality

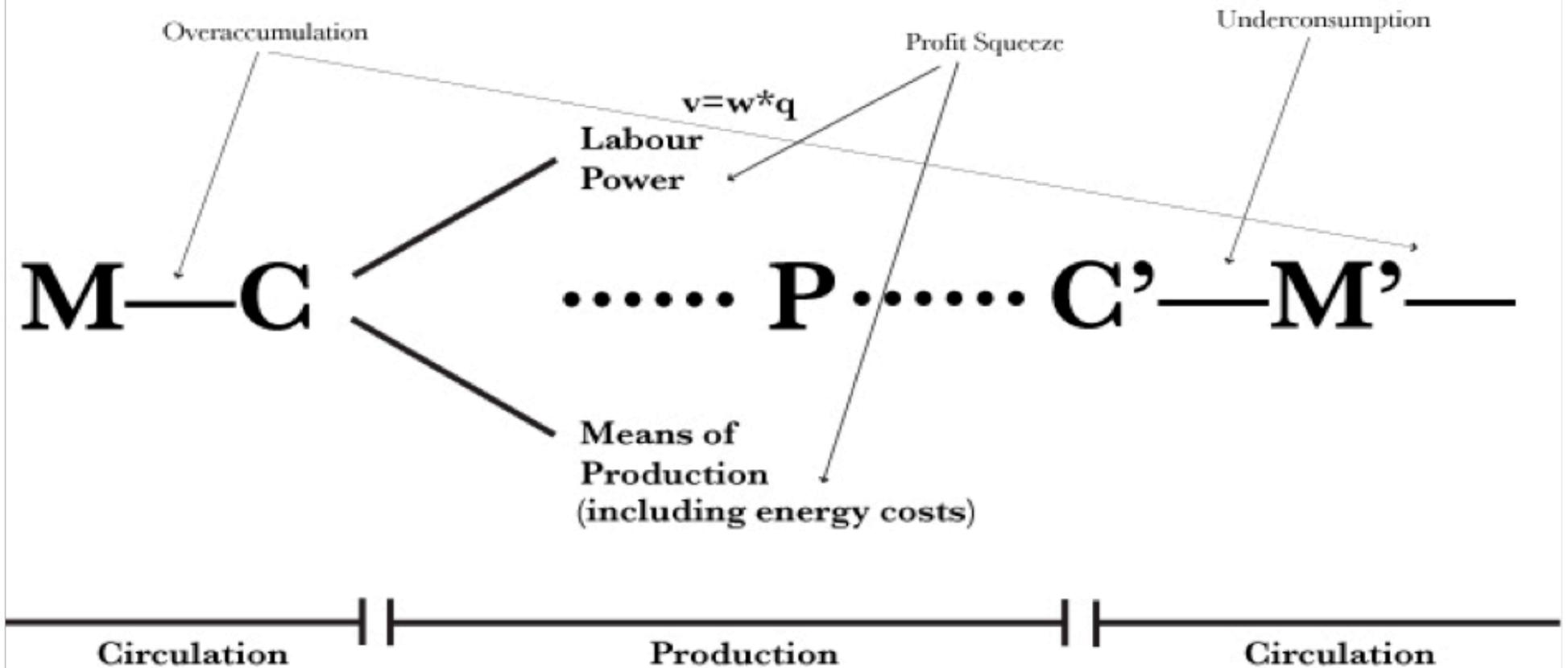
Overproduction and Underconsumption

## 2. Crisis in production

The debate on the falling rate of profit

Theories of profit squeeze and business cycles

# Fragility of the circuit of capital



$v$ =value of labour power  $c$ =constant capital;  $s$ =surplus value;  $w$ =value of a commodity  
 $c+v+s=w$  where  $C' > C$ ;  $M' > M$  and  $M' - M = s$

# Reproduction Schema

Towards the end of Vol. II, Marx proposes several two-sector equilibrium models of the economy. In these models, while Department-1 represents the sector that produces the **means of production (c-goods)**, Department-2 produces the **means of consumption (w-goods)**. These models were intended to demonstrate the **fragility of equilibrium in capitalist accumulation**.

This simplified model of the reproduction of capitalism

- (1) abstracts from the different forms of capitals (money, merchant, and industrial) and their inner connections;
- (2) abstracts from the articulations of capitalism with its outside;
- (3) focuses primarily on the sphere of circulation.

Nevertheless, throughout early twentieth century, many Marxists have deployed the reproduction schema as a model for a capitalist economy.

However, as others emphasized, these schema were not intended to depict Marx's vision of the dynamics of capitalism (Rosdolsky 1977; Mandel 1978). Rather, these schema were intended to show that, despite all **disequilibrating forces**, there is a possibility for capitalism to enjoy **periods of relative stability**.

# Underconsumption Crisis

In order to maintain the continual expansion of capital, the surplus value that is **valorized** in the sphere of production should be **realized** in the markets.

However, since the conditions of existence of the extraction of surplus value are not identical to the conditions of existence of its realization, a certain contradiction is embedded into the logic of capital.

On the one hand, the necessities of realization requires **mass consumption**, and hence an increase in the income of the wage laborer.

On the other hand, such an increase in the variable capital will translate into a **fall in the surplus value** (unless the rate of exploitation ( $e = s / v$ ) remains constant or rises) and will lower the value rate of profit ( $r = s / (c + v)$ ).

According to this logic, since there are strict limits to the consumption of the wage-laborers, sooner or later capitalism will face the problem of **effective demand**.

The flip side to underconsumption is **overaccumulation**. If Department-1 overestimates the demand for constant capital, this can lead to an unutilized capacity for the output of consumer goods.

# Permanent Non-equilibrium

It is rather interesting that these theories are conceived as the triggering mechanisms of the anticipated breakdown of capitalism. This is, in part, an outcome of misreading the reproduction schemata as different representations of capitalism as such and of taking equilibrium as the state in which capitalist accumulation takes place.

However, for Marx, capitalist accumulation is a process of **permanent non-equilibrium**. The crises of disproportionality, leading to devalorization (e.g., cheapening of the means of production), should be seen as correction mechanisms of a destructive yet creative competition (e.g., Mandel 1978; Shaikh 1978; Amariglio and Ruccio 1998).

# The Law of Tendency of the Rate of Profit to Fall (TRPF)

The argument that the logic of capital will inevitably fall into a crisis received another theoretical grounding in the so-called law of **tendency of the (value) rate of profit to fall**.

Based on the assumption that capital accumulation will be labor saving, the law of TRPF states that due to the rising organic composition of capital ( $k = c/v$ ), ceteris paribus [e.g., the rate of exploitation ( $e = s/v$ ) remains constant], the rate of profit will fall.

The value rate of profit ( $r$ ) for the economy can be defined as follows:

$$r = \frac{s}{(c + v)} = \frac{\frac{s}{v}}{\left(\frac{c}{v}\right) + 1} = \frac{e}{k + 1}$$

# Counterveiling Tendencies

Marx did spell out at least five counter-tendencies to the law of the TRPF (see Marx 1981:339-348).

- (1) increasing rate of exploitation;
- (2) reduction of wages below their value;
- (3) cheapening of the means of production;
- (4) increase in the surplus population;
- (5) foreign trade.

# Marx, the game theorist...

“No capitalist voluntarily applies a new method of production, no matter how much more productive it may be or how much it might raise the rate of surplus-value, if it reduces the rate of profit. But every new method of production of this kind makes commodities cheaper.”

Therefore, Marx reasons, the capitalist “pockets the difference between their costs of production and the market price of the other commodities, which are produced at higher production costs. This is possible because the average socially necessary labor-time required to produce these latter commodities is greater than the labor time required with the new method of production. His production procedure is ahead of the social average. But competition makes the new procedure universal and subjects it to the general law. A fall in the rate then ensues – firstly perhaps in this sphere of production, and subsequently equalized with the others – a fall that is completely independent of the capitalists’ will” (Marx 1894/1981:373-4).

# Siphoning Surplus

	C	V	S	W	(uv/ev)ev	ev	revenue
<b>I</b>	8	8	4	20 hrs	20 units	1 hr	26.6 hrs
<b>II</b>	8	8	4	20 hrs	10 units	2 hrs	13.3 hrs
				40 hrs	30 units		40 hrs

# Political Business Cycles

The capitalist accumulation process is characterized by periods of expansion that are followed by periods of recession. As this process of booms and busts is, in part, regulated and manipulated by the state and, in part, an outcome of the wage-push profit squeeze, some Marxian economists name it as 'political business cycles'.

**The periods of expansion** begin with revitalized investment, and investment, as it spreads through industries, leads to an increase in the demand for labor-power. The fall in the unemployment rate, if it is sustained over a period, leads to an increase in the confidence levels of the working people and their institutional representatives (trade unions, political parties, and so on). The garnering strength of trade unions, in due time, translates into an increase in the share of the real wage in the social product. Given the difficulty in raising consumer prices in a competitive environment, rising labor militancy eventually leads to a profit squeeze.

In response, the capitalist state, undercuts the expansionary period by deploying deflationary, recession inducing, and demand contracting monetary and fiscal policies. This turn in macro-policy marks the beginning of **the period of recession**. Recessions, without doubt, do not only increase unemployment levels and thereby reduce real wages, but also lead to a major cheapening of capital goods.