Module 2

Lecture 14

Topics

2.13 Karl Marx III

2.13.1 Marx's Economic Theories

2.13.1.1 Marx's methodologies

- The basic difference between the Marxian and main stream economics lies in the treatment of individual, society and their interaction.

- In mainstream economics a representative individual takes decision to maximize his/her well being. The societal outcome is nothing but an aggregation of individual decisions.

- In Marxian economics, economic class (as opposed to individual) is the key to understanding the society.

- These two strands of economics took two different positions because of the different questions they try to answer -- mainstream economics is mostly concerned with the decision making problem within the current economic and social set up while Marxian economics looks to understand the changes in social and economic organizations.

2.13.1.2 Commodities and classes

- Marx argued that the capitalist production is characterized by the separation between means of production and the proletariat. This is a marked difference from the earlier artisan based production where workers would own means of production

- The surplus produced in excess of the subsistence is always produced by laboring people. In a slave society surplus was produced by the slaves, in a feudal society by serfs and in a capitalist society by factory workers or proletariat.

- A society is characterized by who owns surplus and the basis of their entitlement -- in slave society it was the social elites, in a feudal society it was the landlord class and in capitalist society it is owned by the capitalist class.

- For understanding the capitalist society (and transition thereof) Marx reasoned that it is critical to understand the forces that determine prices of commodities and labor power. This was because in a capitalist economy all that is produced and all the means of production are bought and sold in the market.

- Marx argued that prices in a capitalist system represent both the quantitative relation between commodities and qualitative relationship between individuals who own them.

- Marx was primarily interested in the analysis of prices as it reveals the social relationships between labor and capitalist classes and secondarily because of the quantitative relation between commodities.

2.13.2 Marx's Labor Theory of Value

- Commodities with different physical characteristics can be compared using prices. This means there must be something common in them that makes them comparable. Marx argued this sameness cannot come from the consumption side as a coat and a pen have different types of use values.

- Marx argued that labor is the common factor which makes different goods comparable. This was in line with classical political economy tradition which was built on the labor theory of value.

- Marxian labor theory of value was an extension of the Ricardian value theory and it stumbles upon the problems that were inherent in the classical labor theory of value.
- One big stumbling block was the problem of comparing different skill levels of labor.
- Marx theoretically solved this problem by assuming a homogeneous measure of labor known as the abstract labor.
- On a more practical level (and less theoretical) he proposed that this problem can be solved by measuring the socially necessary level of skill required to produce a good. This is precisely the time taken by a worker with average skill measured in clock hours.
- If a worker with higher skill is engaged necessary adjustment is made. If a worker is twice as productive as an average worker then 1 hour of this more productive laborer shall be counted as 2 hours of the average worker.
- Another crucial problem is how to measure capital's contribution to relative prices.
- Again Marx used Ricardo's solution of treating capital as the stored up capital which means that labor required to produce a unit of a commodity is the direct labor + indirect labor embedded in capital.
- However, this theory is not consistent with the interest theory. We will discuss the inconsistencies when we discuss neo-classical distribution theory.
- A bigger problem is the contribution of land with different fertility power. Unlike capital, land cannot be seen as stored labor and hence, land's contribution cannot be measured in terms of abstract labor.
- In the third volume of capital Marx adopted Ricardo's theory of rent to show that competition on the superior grade of land will raise rent until rates of profit on all grades of land are equal. Rent according to Marx also is price determined and not price determining. This however does not solve the original problem of accounting for value created by land.

- The final difficulty of the labor theory of value comes from the analysis of the influence of profits on prices. We will come to this issue after we famiarize ourselves with a few more Marxian concepts.

2.13.3 Surplus and Exploitation

- Surplus was the key concept for Marx to analyze transition from one system to another system.

- Let us first analyze surplus. Value (measured by abstract labor) embedded in a unit of commodity consists of two components: cost of production and surplus.

- Given that labor is the only factor of production and wage just covers subsistence, cost of production can be interpreted as labor needed to produce the subsistence basket of the laborers who have worked to produce the unit directly or indirectly through the production of the inputs.

- Surplus is always produced by the proletariat class -- slaves, serfs or workers and appropriated by people who own means of production like slave owners, feudal lords and capitalists. In a socialist regime, surplus will be owned and managed by the proletariat class.

- The process of surplus appropriation by the capitalist class is termed as exploitation.

- The word exploitation is often used as a normative term. But stripped of its normative connotation it is a process where surplus which produced by the labor class is appropriated by the capitalist class