

Karl Marx

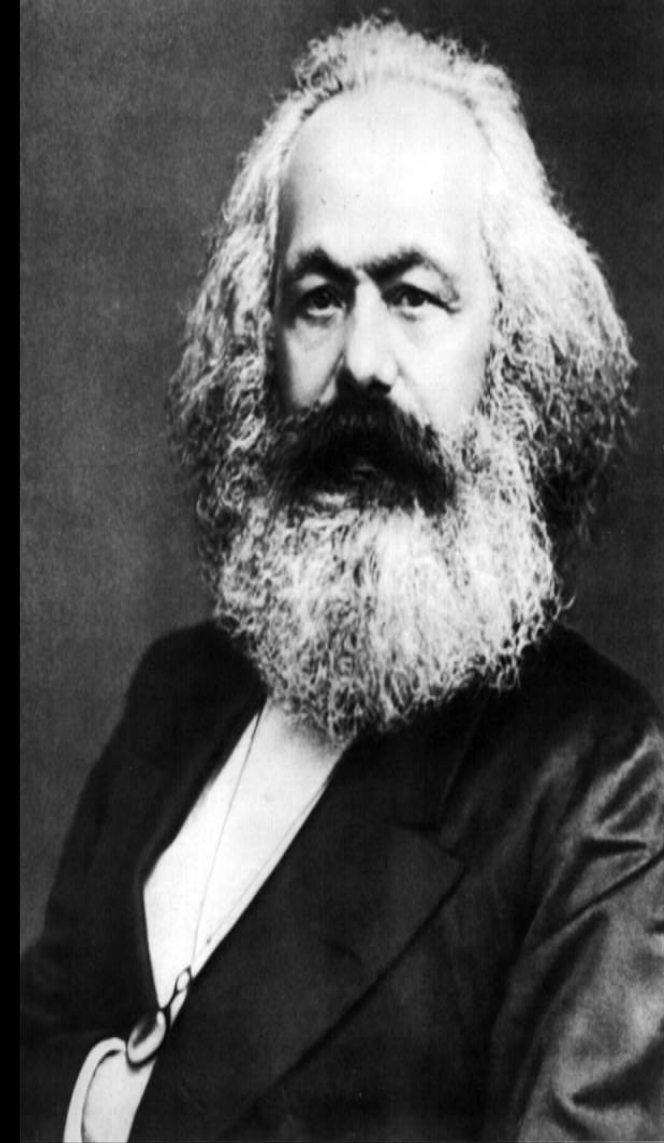
b. 1818 - d. 1883

Manifesto of the Communist Party, 1848

*Capital, Volume I
(Das Kapital), 1867*

*Capital, Volume II
(posthumously published by Engels), 1885*

*Capital, Volume III
(posthumously published by Engels), 1894*



The first volume of Das Kapital (1867) was Karl Marx's magnum opus.

Karl Marx (1818-1883)

German Philosopher,
Author, Social Theorist,
Historian, Sociologist
, Journalist And An
Economist.

He Is Famous For His
Theories About
Capitalism And
Communism.

Marx built upon the work of his 'classical' predecessors – in particular the British economists [Adam Smith](#) and [David Ricardo](#).

These enlightenment thinkers had attempted to examine capitalism on a scientific basis. In doing so, they hit upon the idea that labour was the source of all new value within society.

By developing this 'labour theory of value', Marx was able to explain an enigma that had eluded the classical economists: that of profit. This, Marx demonstrated, arises from exploitation – that is, from the surplus value produced by the working class. Simply put, the capitalists' profits are obtained from the unpaid labour of the workers.

Marxism, which he called “scientific socialism Marxism, or Scientific Socialism, is the name given to the body of ideas first worked out by Karl Marx (1818-1883) and Friedrich Engels (1820-1895)

Marx developed his theory of value out of his critique of English (and Scottish) political economists Adam Smith and David Ricardo, the founding fathers of modern economics

In terms of Hegelian philosophy, history moves on the basis of ideas. It is based upon what is called the dialecticism

Everything has its opposite side. If there is something which we think is true then there must be something that is false to us.

Similarly, if there is something good then there must be something bad also.

There is always a conflict between the thesis and the antithesis and in due course of time the two get merged into one new idea called synthesis

People act on the basis of their ideas and accordingly whatever be the current flow of ideas would determine the course of action of the people and hence the movement of history

The thing has its opposite – this also referred to as every thesis having its antithesis.

Marx maintained that Hegelian interpretation of history was upside down. Ideas did not move on their own, or according to the predetermined will of God

All our ideas, philosophy, actions, and political and religious institutions were founded upon the materialistic forces i.e. mode of production in the economy

In an economy, there is always the need to produce and for this the society organises itself into various institutions, methods of work, systems of distribution and exchange etc.

All these things put together are called by him the mode of production this mode of production includes for him all kinds of productive relationships. Within this productive relationship, there may be a system of slavery, there may be a system of workers and capitalists, feudal lords and serfs, and so on.

Marx essentially defines capitalism as a system ("mode of production") designed for capital accumulation rather than consumption.

In more primitive systems, farmers and artisans produced commodities with the object of exchanging them for money in order to buy other commodities that better fit their consumption needs (C-M-C).

In capitalism, by contrast, the production of commodities for exchange are merely an intermediary step in a process initiated by capitalists in order to make more money,

what he calls the "circuit of capital" (M-C-M') That is, capitalists use money (M) to buy labor power and raw materials, which are then transformed by production into commodities (C) which are then sold for a greater amount of money (M').

dynamism of capitalism is the central story of Capital, it is all built on the exploitation of workers.

Labor Theory of Value

Like the other classical economists, Karl Marx believed in a labor theory of value (LTV) to explain relative differences in market prices. This theory stated that the value of a produced economic good can be measured objectively by the average number of labor hours required to produce it. In other words, if a table takes twice as long to make as a chair, then the table should be considered twice as valuable.

Marx understood the labor theory better than his predecessors (even Adam Smith) and contemporaries, and presented a devastating

intellectual challenge to **laissez-faire economists** in *Das Kapital*:

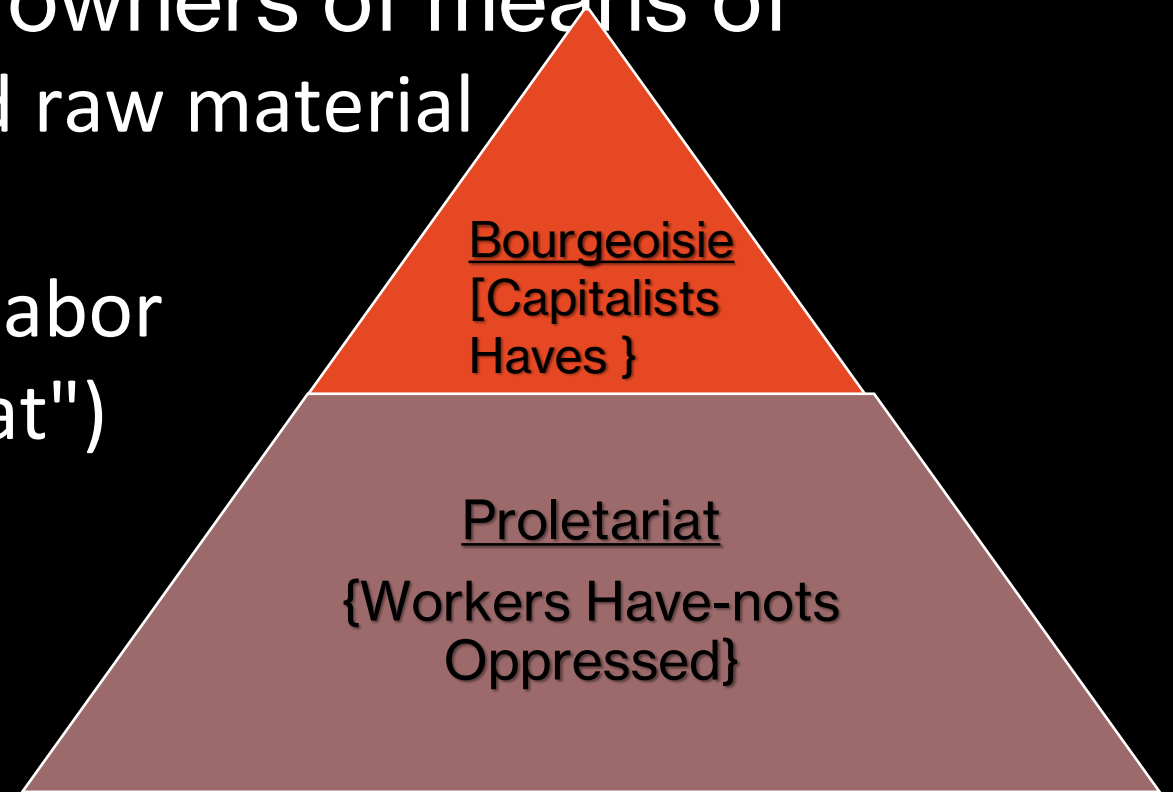
If goods and services tend to be sold at their true objective labor values as measured in labor hours, how do any capitalists enjoy profits? It must mean, Marx concluded, that capitalists were underpaying or overworking, and thereby exploiting, laborers to drive down the cost of production

Marxian Theory of Economic Development

most penetrating examination of the process of capitalist development

Major assumptions:

1. There are two principal classes in the society
 - a. Bourgeoisie /capitalists: owners of means of production all factories, tools, and raw material
 - b. Proletariat /workers
much larger class is composed of labor (which Marx termed the "proletariat")
2. Factors /means of production (tools)are owned by the capitalist



3. Labor is the main source of value generation.

Machines without workers are useless. Workers without machines, on the other hand, are not useless because the workers can make the machines that they need to do their work. Therefore, in a sense, all production is done by labor.

4. Capitalist exploit the workers :

Workers need tools (the “means of production”) to produce things

- Capitalists have the tools, the workers don't

- Capitalists end up as the workers' bosses –

Because there are many workers but not that many capitalists, and – there always exists a “reserve army of the unemployed”

5. Capital is of two types: constant capital and variable capital.

Constant capital is the value of goods and materials required to produce a commodity (tools, machines, raw material)

Variable capital = is the wages paid for the production of a commodity wages, used to purchase of labor-power

6.. Wages of the workers are determined at subsistence level of living.

7. Labor is homogenous and perfectly mobile.

8. National Income is distributed in terms of wages and profit.

Concepts

1. Exploitation of labor
2. Surplus value
3. Capital Accumulation
4. Downfall of Capitalism

Marx's concept of surplus value plays an important role in his theory of capitalist development

Surplus value/exploitation of labor

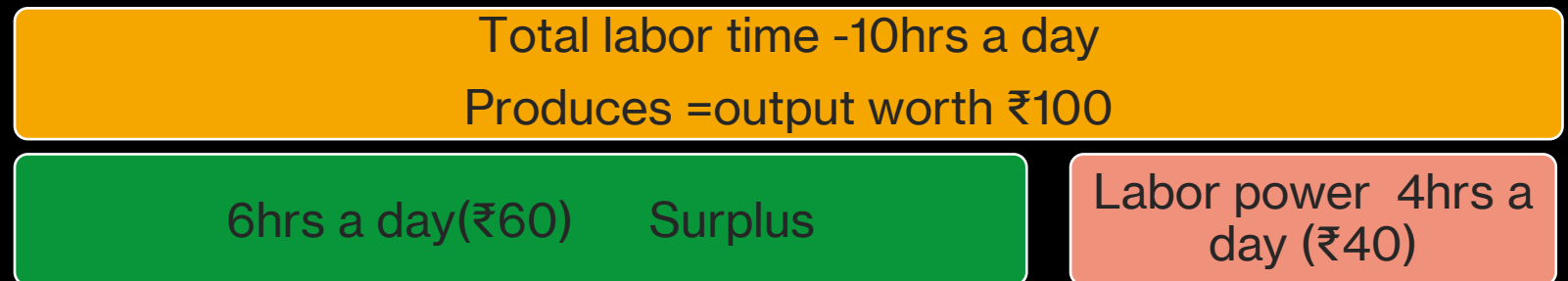
Capitalists who own the material means of production such as capital equipment, land and raw materials with which labor is employed to produce goods and services..

Capitalists use the workers' "labor time" to produce commodities –

Labor time is the socially accepted length of the typical working day – suppose It is socially acceptable the workers to work for ten hours a day.

But capitalists pay the workers for their "labor power" – Labor power (subsistence wage ;bare min .for labor to survive).

e.g. it takes four hours of labor to produce the goods a worker and his family needed to survive for a day, the value of his labor power was four hours per day.



This surplus value represents profits of the capitalists.

According to Marx, surplus value or profits over and above the labor power extracted from labor by the capitalists represents the exploitation of labor. It is the labor alone that is the ultimate source of all value.

According to Marx, equipment and raw materials do not create value – they merely transfer their own value to the value of the final product.

labor creates more value than the value of labor power /its own value i.e. cost of reproduction of labor, In other words, the value of labor power,, means the minimum subsistence wages

Marxian analysis, the total value of output is composed of three elements.

- Constant capital C -value of the capital and raw materials consumed in the production of goods and services.
- Variable capital V, minimum subsistence wages paid to the workers used in the production of goods and services..

the surplus value which is created by the laborers over and above the value of their labor power

Total value output = constant capital + variable capital + surplus value
= $C+V+S$

C, stands for consumption of fixed capital If we subtract the value of C from the total output,

Net output = $V+S$

$$Y=V+S$$

$$\text{Surplus value } S=Y-V$$

“Organic composition of capital” “ Q “= C/C+V

Ratio of constant capital to total capital

Rate of surplus value /rate of exploitation of labor,
(s)=S/V

Rate of profit(p) = S/(C + V)

The ratio of surplus value (S) to the total capital, that is, variable capital (V) + constant capital (C).

$$(p) = \frac{S}{(C+V)} \quad \times \text{ by } V \quad = \frac{SV}{V(C+V)}$$
$$\frac{SV+SC-SC}{V(C+V)} = \frac{SV+SC}{V(C+V)} - \frac{SC}{V(C+V)} \quad \frac{S}{V} = s$$

$$\frac{S(V+C)}{V(C+V)} - \frac{SC}{V(C+V)} = \frac{S}{V} - \frac{SC}{V(C+V)} = s - s \frac{C}{(C+V)} = s(1-Q)$$

rate of profit p=s(1-Q)

“Organic composition of capital” “ Q “= C/V

Ratio of constant capital to constant capital

Rate of surplus value /rate of exploitation of labor,
(s)=S/V

Rate of profit(p) = S/(C + V)

$$(p) = \frac{S}{(C+V)} \quad \div \text{ by } V$$

$$= \frac{S/V}{(C/V+V/V)} = \frac{s}{Q+1} \quad s=S/V$$

$$p = \frac{s}{Q+1}$$

rate of profit $p = s(1-Q)$

Capital Accumulation, Technological Progress and Economic Growth:

Marx explained his theory of development with his assumption that **labor supply is perfectly elastic at the subsistence wages.**

The capitalist engages workers for the production of goods and these workers create surplus value which is reinvested to increase capital accumulation.

Marx believed that capital accumulation along with technological progress increases labor productivity and brings about economic growth.

Thus, according to Marx, with further economic development there was tendency for capital per worker to rise.

With wages remaining sticky at subsistence level, the more surplus value is created by workers which are invested in new capital goods

Rising Exploitation of Labor with Capitalist Development:

According to Marx, the capitalists who own the material means of production compete with each other to increase the rate of exploitation (S/V) which is the same thing as the increase in profits competition to increase the rate of exploitation

There are three ways of increasing the surplus value or rate of exploitation

- ❑ **lengthening the working day.** When the workers are forced to work for a larger number of hours in a day than before, the total output increase
- ❑ the surplus value or rate of exploitation may be raised by increasing the **intensity of labor** (श्रम का अधिक गहन उपयोग कर के) i.e, forcing the workers to do greater amount of work while keeping the working day constant.

Raising the physical productivity of workers/speeding up labor ; through technical progress

Technical progress involves the improvement in techniques of production. Workers working with better and improved techniques produce more .productivity of labor will increase With wages remaining constant at the minimum subsistence level, surplus value or rate of exploitation rises.

Every capitalist competes and use expensive machinery C to increase surplus.

this will lead to increase in the “organic composition of capital”,
 $Q=C/V$. rate of profit $p=s/1+Q$

rate of profit $p=s(1-Q)$

However, since it is only the variable capital that produces profit, the result is a falling rate of profit.

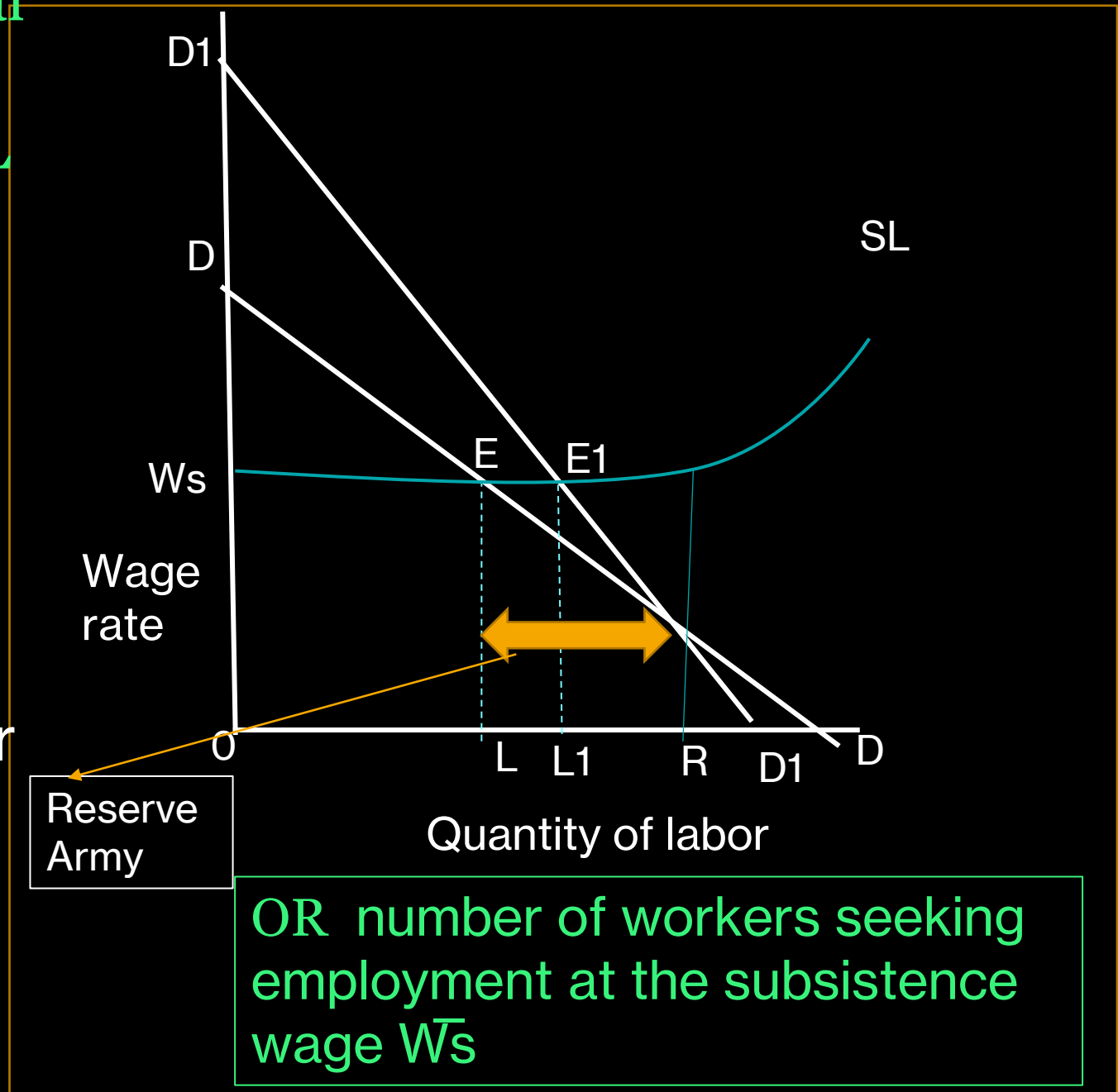
With a given initial stock of capital (K), labor demand curve is given by DD, cuts labor-supply curve SL at level of employment OL at the subsistence wage level \bar{W}_s .

OLEW's total wages earned by workers where $\bar{W}_s \cdot ED$ surplus value

due labor-saving bias of new technology

labor demand curve to a steeper curve D_1D_1

increase in labor employment is much less than the growth in output.



Emergence of Under-Consumption/ Over-Production:

Another causes of its downfall. under-consumption or what is also called over-production, that is, lack of demand for goods which, according to Marx, causes periodic depressions and economic crises. low wages of labor creates meagre incomes or purchasing power for the workers who constitute a majority in the society. This creates the problem of lack of effective demand for goods or what is called by Marx as under –consumption.

As a result, the goods produced on a mass scale by the capitalists cannot be sold. This results in depression or economic crisis.

depressions or economic crises will go on increasing in intensity and will ultimately bring about its collapse

Downfall of Capitalism

Capitalist mode of production, according to Marx, is based upon the exploitation of the working class.

As a result, under capitalism there is a clash of interests between the 'haves' – the capitalists – and the 'have-nots' – the proletariat.

Capitalist tries to raise the surplus value and the rate of exploitation of the workers by all means .

He tries to do this by lowering the real wages
, increasing the working hours
increasing the intensity of work by the workers.

This makes the life of the workers quite miserable. The increasing misery of the working classes will prompt them to revolt against the capitalist system and ultimately overthrow it through revolution.