

# *In Defense of Marxism:* *An Introduction to* *Marxist Economics*

*Along with Dialectical and Historical Materialism, Marxist economics forms the third main branch of Marxism, above all the labor theory of value. Marx spent his entire life applying the dialectical method to an analysis of the capitalist system - its origins, inner workings, development, and contradictions. In his masterpiece Capital and several other works such as Wage Labor and Capital, and Value, Price, and Profit, he goes into meticulous detail explaining the way the capitalist economic system works - or rather, doesn't work.*

*It is impossible to truly understand this aspect of Marxism without a solid grounding in the dialectical method of Marxism. Because of this, only a fully-rounded study of all the aspects of Marxism can lead to an understanding of these inter-related ideas. This brief introduction by Alan Woods and Rob Sewell covers many of the basic ideas of Marxist economics. These very complicated ideas can only be outlined in such a short space, so we encourage all our readers to explore the rich, invaluable writings of Marx, Engels, Lenin, and Trotsky.*

## **Introduction**

Today, under the impact of the capitalist crisis, many workers have developed a thirst for economics. They are attempting to understand the forces which dominate their lives. This brief introduction to Marxist economics attempts to provide the class-conscious worker not with a complete account of economics, but a guide to the basic laws of motion of capitalist society dominating his existence.

The shallowness of capitalist

economics is demonstrated by their inability to understand the crisis affecting their system. Its role is to cover up the exploitation of the working class and to "prove" the superiority of capitalist society. Their quack "theories" and "solutions" are incapable of patching up the rotten and diseased nature of capitalism. Only the transformation of society on socialist lines and the introduction of a planned economy can end the nightmare of unemployment, slump and chaos.

Only with a Marxist understanding of capitalist society can the conscious worker cut through the lies and distortion of the capitalist economists and combat their influence within the Labor Movement.

## **Conditions for Capitalism**

Today, modern production is concentrated in the hands of giant companies. Wal-Mart, Exxon-Mobil, General Motors, Ford, Enron, and Citigroup, are some examples of the firms which dominate our lives. Although it is true that small businesses do exist, they really represent the production of the past and not the present. Modern production is essentially a mass, large-scale business.

At present, 200 top companies together with 35 banks and finance houses control the British economy, and account for 85 per cent of output. This development has come about over the past few hundred years through ruthless competition, crisis and war. At the time when the classical economists predicted free trade in the future, Marx explained the development of monopoly from competition as the weaker firms went to the wall. Monopoly capitalism grew

out of and abolished free competition.

At first sight, it looks as if goods and things are produced mainly for people's needs. Obviously every society has to do this. But under capitalism, goods are not merely produced to satisfy someone's want or need, but primarily for sale. That is the paramount function of capitalist industry.

In the famous words of an early auto industry magnate, "I'm in business to make money, not cars!" This is a perfect expression of the aspirations of the entire capitalist class.

The capitalist process of production requires the existence of certain conditions. Firstly, the existence of a large class of property-less workers who are obliged to sell themselves piece-meal in order to live. Thus the Republican and Democratic Parties' conception of a "property owning democracy" is an absurdity under capitalism, because if the mass of the population owned sufficient property to be self-sufficient, the capitalists would not find the workers to produce their profits. Secondly, the means of production must be concentrated in the hands of the capitalists. Over the centuries, the peasants and those who owned their own means of subsistence were ruthlessly crushed and their means of life appropriated by the capitalists and landlords. They in turn hire the workers to work these means of production and produce surplus value.

## **Value and Commodities**

How does capitalism work? How are workers exploited? Where does profit come from? How are slumps caused?

In order to answer these questions, we first need to learn the key to the mystery: what is value? Having solved this problem, the other answers fall into place. An understanding of *value* is essential for an understanding of the economics of capitalist society.

To begin with, all the capitalist firms produce goods or services, or more correctly they produce commodities. That is a good or service produced for sale only. Of course, someone may make something for his or her own personal use. Before capitalism existed, many people had to. But this is not a commodity. Capitalist production is above all the creation and “immense accumulation of commodities”. That is why Marx himself started his investigation of capitalism with an analysis of the character of the commodity itself.

Every commodity has a use-value for people. That means they are useful to someone otherwise they could not be sold. This use-value is limited to the physical properties of the commodity.

They also contain a value. What is it and how can it be shown?

If we leave the use of money out for the time being, commodities, when they are exchanged, fall into certain proportions.

For example:

- 1 pair of shoes = 10 yards of cloth
- 1 watch = 10 yards of cloth
- 3 bottles of whisky = 10 yards of cloth
- 1 car tire = 10 yards of cloth

Each of the items on the left can be exchanged for 10 yards of cloth. They also, in the same amounts, can be exchanged with one another.

This simple example shows that the exchange value of these different commodities expresses something contained in them. But what makes a pair of shoes = 10 yards of cloth? Or 1 watch = 3 bottles of whisky?

Well, obviously, there must be something common to all. Clearly it is neither weight, color, nor hardness.

Again, it is not because they are useful. Bread after all is worth less than a Roll Royce, yet one is a necessity and the other luxury. So what is the common quality? The only thing in common is they are all products of human labor.

The amount of human labor contained in a commodity is expressed in time: weeks, days, hours, minutes.

To go back to the example: all these commodities can be expressed in terms of their common factor, labor-time.

- 5 hours (labor) worth of shoes
- 5 hours (labor) worth of tires
- 5 hours (labor) worth of watches
- 5 hours (labor) worth of whisky
- 5 hours (labor) worth of cloth

### Average Labor

If we look at commodities as use-values (their utility), we see them as a “shoe”, “watch”, etc., as products of a particular kind of labor - the labor of the cobbler, watchmaker, etc. But in exchange, commodities are looked at differently. The special character is lost sight of and they appear as so many units of average labor. In exchange we are now comparing the amounts of human labor in general contained in the commodities. All labor, in exchange, is reduced to *average simple units of labor*.

It is true that the commodity produced by skilled labor contains more value than that produced by unskilled. Therefore in exchange, the units of skilled labor are reduced to so many units of unskilled, simple labor. For example, the ratio of 1 skilled unit = 3 unskilled units, or simply skilled labor is worth three times as much as unskilled.

Explained simply, the value of commodity is determined by the amount of average labor used in its production. (Or how long it takes to produce). But left like this, it appears that the lazy worker produces more values than the most efficient worker!

Let us take the example of a shoemaker who decides to use the outdated methods of the Middle Ages to produce shoes. Using this method, it takes him a whole day to make a pair of shoes. When he tries to sell them on the market, he will find that they will only fetch the same as shoes produced by the better-equipped, more modern factories.

If these factories produce a pair of shoes in, say half an hour, they will contain less labor (and therefore less value) and will be sold cheaper. This will drive the shoemaker using medieval methods out of business. His labor producing a pair of shoes after half an hour is wasted labor, and unnecessary under modern conditions. On pain of extinction he will be forced to introduce modern techniques and produce shoes at least equal to the necessary time developed by society.

At any given time, using the average labor, machines, methods, etc., all commodities take a particular time to make. This is governed by the level of technique in society. In the words of Marx, all commodities must be produced in a socially necessary time. Any more time spent over and above this will be useless labor, causing costs to rise and making the firm uncompetitive.

So to be more precise, the value of a commodity is determined by the amount of socially necessary labor contained in the article. Naturally, this labor time is continually changing as new techniques and methods of work are introduced. Competition drives the inefficient out of business.

Thus we can also understand why precious gems or metals have more value than everyday items. More socially necessary labor time is needed to find, and extract and cut the gems, than the production of ordinary commodities. Their value therefore being considerably higher.

Again - a thing can be a use value without having any value, i.e. a useful thing that has had no labor time spent on its production: air, rivers, virgin soil, natural meadows,

etc. Therefore labor is not the only source of wealth, i.e. use values; nature too is a source. But only human labor can *add* value to an article and turn it into a commodity when it meets other commodities on the market.

From the above we can see that an increase in productivity will increase the number of things produced in a certain period of time (material wealth), but can reduce the value of the things concerned, i.e. the amount of human labor contained in each commodity is less. Increased productivity therefore results in an increase in the total wealth of society. With two coats two people can be clothed, with one coat only one person. Nevertheless, the increase in the quantity of material wealth may correspond with a fall in the magnitude of its value.

## Money

As a result of the difficulties in exchange by using the methods of barter, more frequently a common article was used as “money”. Over the centuries one commodity--gold--became singled out to play this role as the “universal equivalent”.

Instead of saying a good is worth so much butter, meat, cloth, etc., it became expressed in terms of gold. The money expression of value is price. Gold was used because of its qualities. It concentrates much value in a small amount, can easily be divided into coins, and is also very durable.

As with all commodities, the value of gold itself is determined by the amount of time-time spent on its production. For example, say it takes 40 hours labor to produce one ounce of gold. Then all the other goods that take the same time to produce are equal to that ounce of gold. Those that take half the time equal half the amount, etc.

One ounce of gold = 40 hours labor  
1/2 ounce of gold = 20 hours labor  
1/4 ounce of gold = 10 hours of labor

For example:

1 car (40 hrs labor) = 1 oz. of gold  
1 table (10 hrs labor) = 1/4 oz. of gold

Due to the changes in productive technique and the increase in the productivity of labor, all the values of commodities are continually fluctuating, like so many trains in a station pulling in and out at differing times. If you take any train as a standard which is moving off to gauge the movement of others, it would lead to confusion. Only by standing on the firm platform can you judge accurately what is happening. In relation to the changes of all goods, gold acts as the measure. Although the most stable, even this is in constant motion, as no commodity has a totally fixed value.

## Prices of Commodities

The law of value governs the price of goods. As explained earlier, the value of commodities is equal to the amount of labor contained in it. In theory, the value is equal to its price. Yet, in reality, the price of a commodity tends to be either above or below its real value. This fluctuation is caused by different influences on market price, such as the growth of monopoly. The differences of supply and demand also have a great effect. For instance, there may be a surplus of a commodity in the market, and the price that day may be far below the real value, or if there was a shortage, the price would rise above it. The effects of supply and demand have led bourgeois economists to believe that this law is the sole factor in determining price. What they were unable to explain was that prices always fluctuate around a definite level. What that level is, is not determined by supply and demand, but by the labor time spent in the articles' production. A cement truck will always be more expensive than a plastic bucket.

## Profits

Some “clever” people have invented the theory that profits arise from buying cheap and selling dear. In *Wage, Labor and Capital*, Marx explains

the nonsense of this argument:

“What a man would certainly win as a seller he would lose as a purchaser. It would not do to say that there are men who are buyers without being sellers or consumers without being producers. What these people pay to the producers, they must first get from them for nothing. If a man first takes your money and afterwards returns that money in buying your commodities you will never enrich yourself by selling your commodities too dear to that same man. This sort of transaction might diminish a loss, but would not help in realizing a profit”.

## Labor Power

In obtaining the “factors of production”, the capitalist looks at the “labor market” as just another branch of the general market for commodities. The abilities and energies of the worker are seen as just another commodity. He advertises for so many “hands”.

What we have to be clear about is what the capitalist has bought. The worker has sold **not** his labor but his *ability to work*. This Marx calls his labor power.

Labor power is a commodity governed by the same laws as other commodities. Its value is determined by the time-time necessary for its production. Labor power is the ability of the worker to work. It is “consumed” by the capitalist in the actual productive process. But this presupposes the existence and health and strength of the worker. The production of labor power therefore means the worker's self-maintenance and the reproduction of his species, to provide new generations of “hands” for the capitalist.

The time necessary for the worker's maintenance is the time it takes to produce the means of subsistence for him and his family: food, clothing, fuel, etc. The amount of this varies in different countries, different climates, and different historical periods. What is adequate subsistence for a laborer in Calcutta would not be adequate for

a Welsh miner. What was adequate for a Welsh miner fifty years ago would not be for a Midlands car worker today. Into this question, unlike the value of other commodities, there enters a historical and even moral element. Nevertheless, in any given country, at any particular stage of historical development, the “standard of living” is known. (Incidentally, it is precisely the creation of new needs which is the spur to all kinds of human progress).

### Not Cheated!

Apart from the daily reproduction of his labor power, and the reproduction of the species, at a certain stage in the development of capitalist technique, a certain amount has to be provided for the education of the workers in order to fit them for the conditions of modern industry and raise their productivity.

Unlike most commodities, labor power is paid for only after it has been consumed. The workers thus philanthropically extend credit to their employers! If the employer goes bankrupt, then the worker is up a creek without a paddle.

Despite this, the worker has not been cheated. He has arrived at an agreement of his own free will. As with all other commodities, equivalent values are exchanged: the worker’s commodity, labor power, is sold to the boss at the “going rate”. Everybody is satisfied. And if the worker is not, then he is free to leave and find work elsewhere - if he can.

The sale of labor power poses a problem. If “nobody is cheated”, if the worker receives the full value of his commodity, where does exploitation come from? Where does the capitalist make his profits? The answer is that the worker sells the capitalist not his labor (which is realized in the work process), but his labor power - *his ability to work*.

Having purchased this as a commodity, the capitalist is free to use it as he pleases. As Marx explained:

“From the instant he steps into the work shop, the use-value of his labor power, and therefore also its use, which is labor, belongs to the capitalist”.

### Surplus Value

We will see from the following example that the capitalist purchases labor power because it is the only commodity which can produce **new values** above and beyond its own value.

Let us take a worker who is employed to spin cotton into yarn. He gets paid \$1 per hour and works an 8 hour day.

After 4 hours he had produced 100lbs of yarn at a total value of \$20. This value of \$20 is made up from the following:

Raw materials - \$11 (cotton, spindle, power)

Depreciation - \$1 (wear and tear)

New value - \$8

The new value created is sufficient to pay the workers’ wages for the full 8 hours. At this point the capitalist has covered all his costs (including his total wage bill). But as yet no surplus value (profit) has been produced.

During the next 4 hours another 100lbs of yarn is produced valued again at \$20. And again \$8 of new value is created, but this time the wages have already been covered. Therefore this new value (\$8) is surplus value. From this comes rent (to the landlord), interest (to the bank) and profit (to the industrialist). Thus surplus value or profit, in the words of Marx, is **the unpaid labor of the working class**.

### The Working Day

The secret of the production of surplus value is that the worker continues to work longer after he has produced the value necessary to reproduce the value of his labor power (his wages). “The fact that half a day’s labor is necessary to keep the laborer

alive does not in any way prevent him from working a full day.” (Marx).

The worker has sold his commodity and cannot complain about the way he is used, any more than the tailor can sell a suit and then demand that his customer must not wear it as often as he likes. The working day is therefore so organized as to give the maximum benefits from the labor power the capitalist has bought. In this lay the secret of the transformation of money into capital.

### Constant Capital

In production itself, machines and raw materials lose their use value, they are used up and become absorbed into the new product. They transfer their value into the new commodity.

This is clear in relation to raw materials (wood, metal, dyes, fuel, etc.) which are wholly consumed in the process of production, only to reappear in the properties of the article produced.

Machines on the other hand, do not disappear in the same way. But they do deteriorate in the course of production, thus dying a protracted death. The exact moment when a machine is finally declared redundant is no more possible to fix with exactitude than the exact moment of a person’s death. But just as the insurance company, on the basis of the theory of averages, makes very accurate (and profitable) calculations concerning the life-span of men and women, so the capitalist know by experience and calculation roughly how long a machine will last.

The depreciation of machinery, its daily loss of use value, is calculated on this basis and added on to the cost of the article produced. Thus, the means of production add to the commodity their own value in proportion as the deterioration of its use value proceeds. The means of production, therefore, **cannot transfer to the commodity more than that value which they themselves lose in the process of production**. It is thus called *constant*

capital.

## Variable Capital

While the means of production add no **new** value to the commodities produced, but only deteriorate, the labor of the worker not only **preserves**, but **adds new value** to the product while working; i.e. by adding human labor to it. If the process of work were to stop at that moment when the worker had produced articles to the value of his own labor power as paid to him in wages, e.g. in 4 hours (\$8) this would be the only bit of new value created.

But the work process does **not** stop there. This would only cover the expenses of the capitalist in hiring the workmen. The capitalist does not hire workers for charity but for profit. Having “freely” entered into a contract with the capitalist, the worker must labor on, producing extra value and beyond that sum agreed on as his wage.

The means of production on the one hand, and labor power on the other--the “factors of production” of bourgeois economics--represent the different forms assumed by the original capital in the second phase of the cycle:

Money --> Commodity --> Money

(purchase) (production) (sale)

Capitalist economists treat these factors as equal. Marxism distinguishes between that part of capital which does not undergo any change of value in the process of production (machines, tools, raw materials) and that part represented by labor power which creates new value. The first part of capital is called constant capital, and the latter variable capital. The total value of a commodity is made up from constant capital, variable capital and surplus value, i.e.  $C + V + S$ .

## Necessary and Surplus Labor

The labor performed by the working class can be divided up into two parts:

(1) Necessary Labor: This is the part of the labor process which is needed to cover the cost of wages.

(2) Surplus Labor: This is the extra labor performed in addition to labor, which produces the profits.

To increase his profits, the capitalist is constantly attempting to reduce his wages bill. He does this by attempting to (1) lengthen the working day, introduce new shift patterns, etc.; (2) increase productivity to cover wages more quickly; (3) resist wage rises or attempt to cut them.

## Rate of Surplus Value

Since the whole purpose of capitalist production is to extract surplus value from the labor of the working class, the proportion between variable capital (wages) and the surplus value (profits) is of the greatest importance. One is expanding or contracting at the expense of the other. This struggle over the surplus constitutes the **class struggle**. What concerns the capitalist is not so much the amount of surplus value produced but the **rate** of surplus value. For every dollar he lays out in capital he expects a big return. The rate of surplus value is the rate of exploitation of labor by capital. It may be defined as  $V/S$  or necessary labor/surplus labor, (it is the same thing expressed in a different way), where  $V$  = Variable capital,  $S$  = Surplus value. For example in a small plant, total capital of \$500 is divided between Constant (\$410) and Variable (\$90). Through the process of production the value of the commodities have increased by \$90 surplus:  $(C+V) + S$  or  $(410 + 90) + 90$  surplus. The total new value is \$590.

It is the variable capital that is the **living labor**, i.e. it produces the new value of surplus value. So the relative increase in the value produced by variable capital gives us the **rate of surplus value**  $V/S = 90/90 = 100\%$  rate of surplus value.

## The Rate of Profit

Under the pressure of competition at home and abroad, the capitalist is compelled to constantly revolutionize the means of production and to increase productivity. The need to expand compels him to spend a larger and larger proportion of his capital on machinery and raw materials and less on labor power, thus diminishing the proportion of variable capital to constant capital. Side by side with automation goes the **concentration of capital**, the liquidation of the smaller concerns and the domination of the economy by giant monopolies. This constitutes a change in the technical composition of capital.

But since it is the variable capital (labor power) alone which is the source of surplus value (rent, interest, profit), the increasingly larger amounts invested in constant capital results in the **tendency** for the rate of profit to fall. Although with new investments profits can increase enormously, they do not rise proportionately to the much greater capital outlay.

For example, take a small capitalist with a total capital of \$150 made up of Constant Capital (\$50) and Variable (\$100). He employs 10 men at \$10 per day making tables and chairs. After one day work they produce \$250 in total value:

Total Capital :

The wages paid = \$100

The constant capital = \$50

Surplus Value = \$100

The rate of surplus value can be calculated:  $V/S = 100/100 = 100\%$ . The rate of profit is calculated as the ratio between total capital and surplus value:  $\text{Surplus Value}/\text{Total capital}$  or  $100/150 = 66.66\%$  rate of profit. As the amount of constant capital is increased, the rate of profit falls. In the same example, given the same rate of surplus value, let's say we increase the constant capital from \$50 to \$100. The rate of profit

= Surplus value/Total capital = \$100/\$200 = 50%. Again if we increase the constant capital to \$200, all other things being equal, Surplus Value/Total Capital = \$100/\$300 = 33.33 % rate of profit. And lastly constant capital is increased to \$300, the rate of profit would be \$100/\$400 = 25%.

This increase in constant capital expresses in Marxist terms a higher organic composition of capital, and is a progressive development of the productive forces, insofar as less human labor is necessary to produce the things we need. This should mean that we use technology to decrease the working day, produce more than what we need and free up time for things other than working. But under capitalism, increases in human productivity lead only to unemployment, merciless squeezing of the working class, and higher profits for the capitalists.

The tendency for the rate of profit to fall is therefore built into the very nature of the capitalist mode of production, and has been one of the major problems facing the capitalist class in the post-war period. The **mass** of surplus value increases, but in proportion to the increased size of constant capital it results in a falling **rate** of profit.

The capitalists have continually attempted to overcome this contradiction by the increased exploitation of the working class, to increase the mass of surplus value and therefore the rate of profit, by means other than investment. They do this in a number of ways by raising the intensity of exploitation, increasing the speed of the machinery and the lengthening of the working day. Another method to restore the rate of profit is to cut the real wages of the workers below their real value. The very laws of capitalism gives rise to enormous contradictions. The capitalists' constant striving for profits gives the impetus for investment, but new technology forces more workers on the scrap heap. Yet paradoxically the only source of profit is from the labor of the working class.

## Export of Capital

The highest stage of capitalism - imperialism - is marked by the enormous export of capital. In their search for increased rates of profit, the capitalists are forced to invest huge sums of money abroad in countries of low composition of capital. Eventually, the whole world, as Marx and Engels explain in the *Communist Manifesto* becomes dominated by the capitalist mode of production.

One of the major contradictions of capitalism is the obvious problem that the working class as consumers have to buy back what they have produced. But as they do not receive the full value of their labor, they have not the resources to do this. The capitalists solve this contradiction by taking the surplus and reinvesting it in developing the productive forces further. Also they seek to sell the remaining surplus commodities on the world market in competition with the capitalists of all the other different countries. But there are also limits to this as all the capitalists of the world are playing the same game. In addition, the capitalists resort to credit, via the banking system, to provide the necessary cash for the mass of the population to buy the goods. But this also has its limits as the credit eventually has to be paid back, with interest.

That explains why periodically, the booms are followed in regular succession by periods of slump. The feverish struggle for markets end up in a crisis of overproduction for capitalism. The destructiveness of the crises, which are met with the wholesale writing-off of accumulated capital, are a sufficient indication of the impasse of capitalist society.

All the factors that led to the world upswing after the war have prepared the way for downswing and crisis. The characteristic of this new epoch is the **organic** crisis that capitalism now faces. At some stage the working class will be faced with a 1929-type slump if capitalism is not

eradicated. Only by overthrowing the anarchy of capitalist production can humanity prevent the chaos, wastage and barbarism of capitalism. Only by eliminating private property of the means of production, can society escape the laws of motion of capitalism and develop and blossom in a planned and rational way. The mighty forces of production, built by class society, can abolish once and for all the criminal scandal of so-called "overproduction" in a world plagued by want and starvation. Eradicating the contradiction of the development of the productive forces and the nation state and private ownership will provide the basis for an international plan of production.

Using the powers of science and technology, the whole of the planet could be transformed in the space of a decade. The socialist transformation of society remains the most urgent and burning task facing the world's working class. Marxism provides the weapon and understanding to weld together this mighty army for the establishment of a Socialist United States, a Socialist Federation of the Americas, and the basis for the World Federation of Socialist States.

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