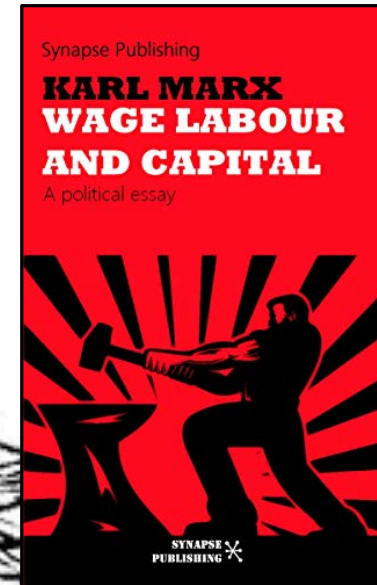


# Marxist Economics

Why is it  
important  
to study  
Marxist  
economics?



# Marxist economics outline

1. Value
2. Labor theory of value
3. Money and labor power
4. Surplus value and exploitation
5. Profit
6. Declining rate of profit

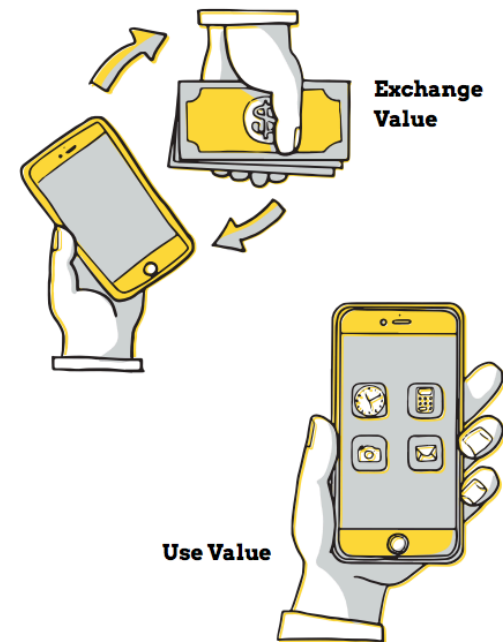
How is the value of any item determined?

# Use Value

Use Value is the ability to fulfill a need (food when you're hungry, water when you're thirsty, etc.)

# Exchange Value

Exchange Value is first of all a ratio by which a certain number of use values of one kind can be exchanged for a certain number of use values of another kind



# Commodities

Commodities are things (or services) that have use value but are made for exchange (sale), not use.

There were no commodities when all products of human labor were shared, as the earliest human hunter-gatherers did for most of human history.



# Commodities (continued)


Things became commodities when exchange developed as the division of labor became sharper and more complex.

In advanced capitalist societies like ours, almost everything is or can be a commodity.


**THE VALUE OF COMMODITIES**

**com·mod·i·ty** – *noun*.

1. A thing that exists "outside of us" that we exchange for something we want or need.
2. Something with use-value and exchange-value.

= Protect your feet when walking = **USE VALUE**  
(Of little use to the capitalist)

= \$65 or \$20 = **EXCHANGE VALUE**  
(Potential profits for the capitalist)

# Exchange Value

While sharing is a type of exchange, it does not require any standard of measure. If two things have the same **use values** (or qualities) there is no need for a measure of exchange (e.g. water for water).

But, if we want to exchange things of different use values (e.g. sweaters for fish) we can't do a 1:1 exchange.

Exchange depends on differences in the amount of labor needed to produce **use value**.

Suppose:

1 sweater = 8 hours labor

1 fish = 2 hours labor

4 fish = 8 hours labor

Therefore:

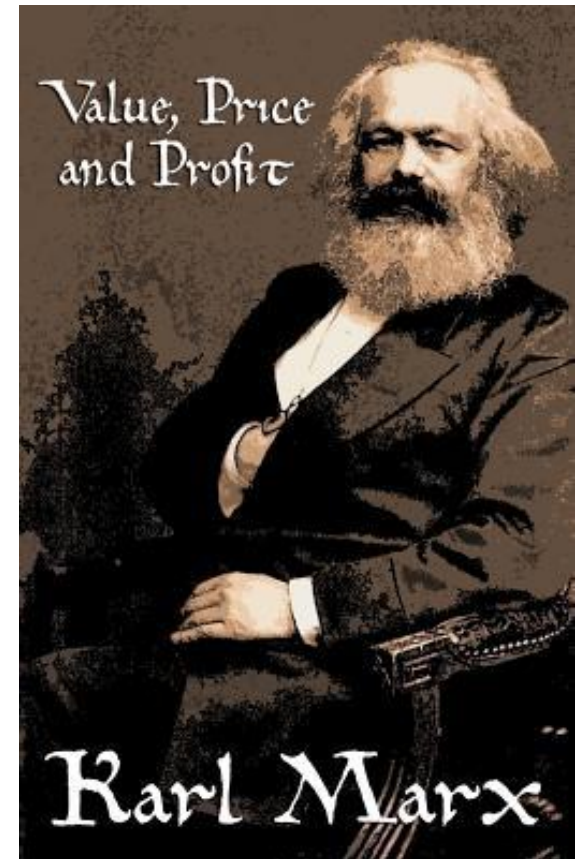
1 sweater (8 hrs.)

= 4 fish (8 hrs.)

## Exchange Value (continued)

“As the exchangeable values of commodities are only social functions of those things, and have nothing at all to do with the natural qualities, we must first ask: What is the common social substance of all commodities? **It is labor.** “

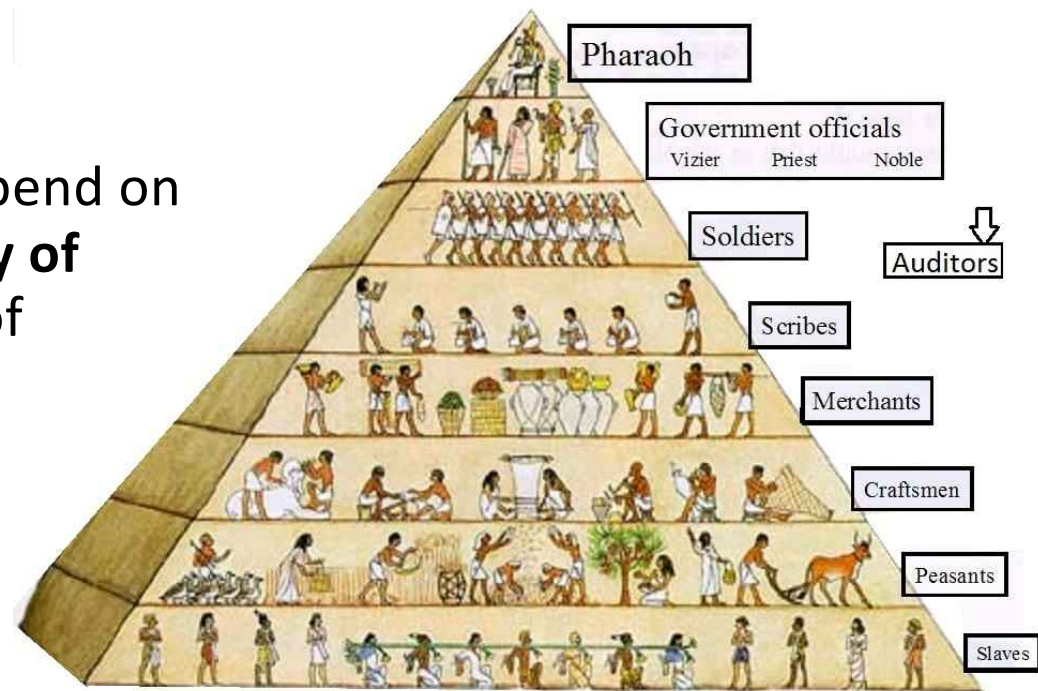
*Marx, Value, Price, and Profit (1865)*





# Quality of Labor

Differences in values depend on differences in the **quality of labor** and on a division of labor based on skills, materials and tools.



If doctors, merchants and farmers all worked the same amount of time, do they receive the same amount of pay?



# Division of Labor

**Division of labor** means that instead of one person making everything, individuals specialize in making a particular thing.

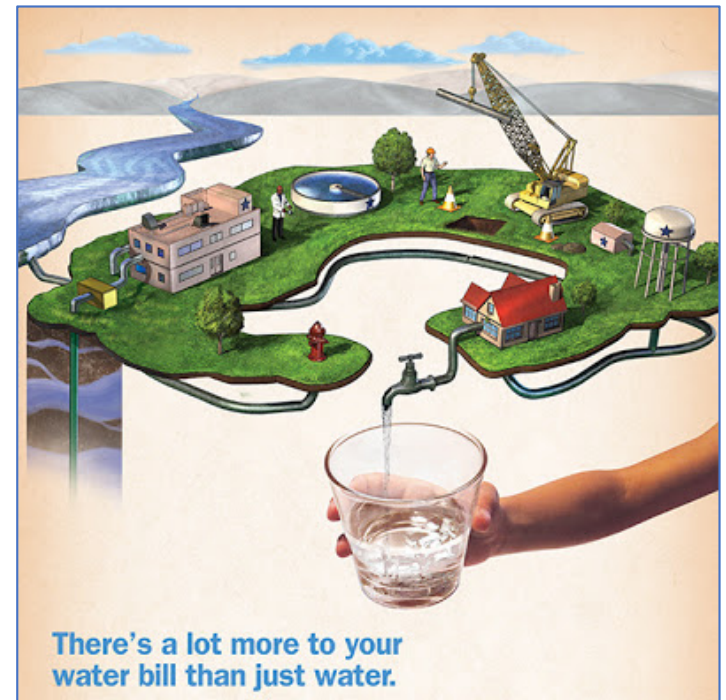


# The Labor Theory of Value

The understanding that the exchange value of anything is based on the amount of labor necessary to get or make it, is called **the labor theory of value**.

**The labor theory of value:** labor is the sole source of value in production.

The exchange value of a commodity is determined by the quantity of socially necessary labor contained in it.



# The Quantity of Socially Necessary Labor

**The quantity of socially necessary labor** is the average amount of time required for the production of a commodity under normal conditions, with an average degree of skill and intensity of labor, utilizing the contemporary, most advanced technology available. Thus, no more time than is socially necessary.

**Socially necessary labor time:** Given the tools, materials, and skills available to society at a given time, the **minimum labor time necessary** to make the item, sets the value. Competition among different laborers sets the value at minimum automatically.

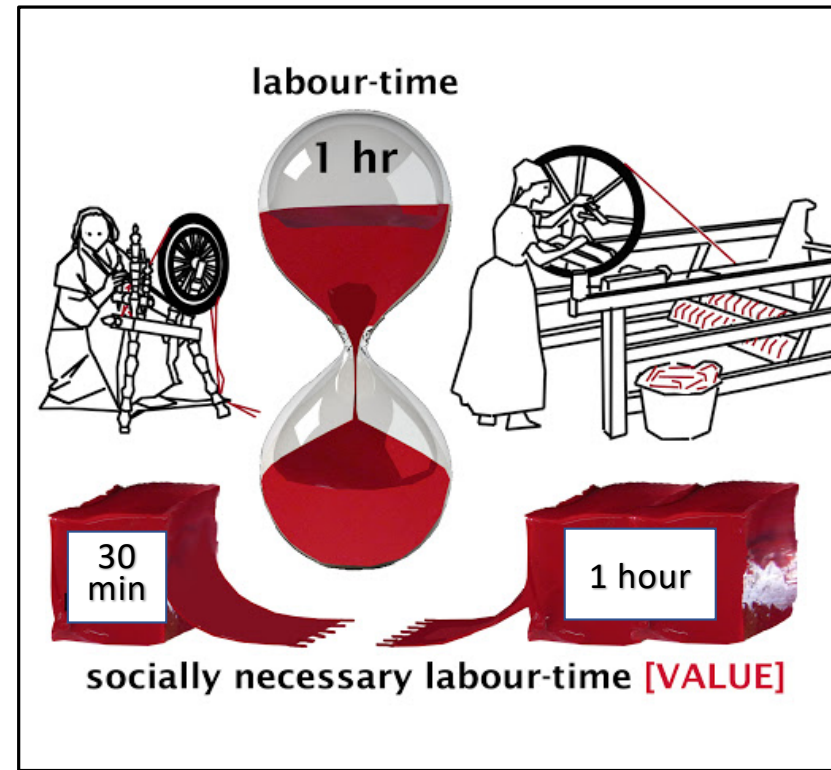
# The Quantity of Socially Necessary Labor

(continued)

“The quantity of labor necessary for the production of a commodity changes continuously with the changes in the productive powers of labor.”

*Marx, Value, Price, and Profit (1865)*

(In an hour, the spinning wheel on the left can only produce half of what the higher tech spinning wheel on the right can produce.)



# The Quantity of Socially Necessary Labor

(continued)

Marx clearly recognized that machinery, technological innovation directly enhanced the productivity of labor. Thus: The greater the productivity of labor, the less labor time is involved in the production of the commodity, and the lesser will be its value, or the lower will be the price of the commodity. Or: The value of a commodity. . . varies directly as the quantity [of labor] and inversely as the productiveness of the labor incorporated in it.



Explain what Marx means here:

What is the difference between varies directly and varies inversely?

# Profits come from unpaid labor

All value (including profits) comes from labor. Since the workers do all the labor and the bosses get all the profits, it follows that profits come from unpaid labor.



# Money and Labor Power

Marx said there are two very special forms of commodities:

**Money:** A commodity that expresses the value of all commodities and is used in the exchange of all other commodities.

**Labor power:** What members of our class have to sell.



# Money

Why is it that you can use money to buy anything?  
Money is not the standard for measuring the usefulness of things. What is money really measuring?



Money is a reflection of the average amount of value--or labor time that it takes to produce a commodity. A loaf of bread is never going to cost the same amount of money as a car because of the differences in the average amount of labor time it takes to produce each.

The value of commodities in relation to one another can be measured not by the amount of money it takes to buy them but by the amount of labor time it takes to produce them.

**Why does Marx call money a special form of commodities?**

# Money (continued)

Paper money is like an IOU. It carries a promise from the government or a bank that issued it. Originally, the holder of the IOU could exchange the note for gold or silver (\$20.67 for one ounce of gold). Today, no country backs its currency with gold. That means no paper money has a value that is directly linked to gold, and no quantity of gold can regulate or impact the production of currency. The government can print as much paper money or symbols of value as it desires, but this will not create more value.



What happens to the value of money if more is printed?

What happens to the price of commodities?

# Labor Power

Labor is not a commodity in Marxism, while labor power is. Labor is something humans have always done to produce the goods and services upon which life depends.

Labor power is what a worker sells to an employer. The employer "consumes" the purchased labor power by setting its owner - the worker - to perform the laboring activity (to do labor) alongside/with tools, equipment, and raw materials. The worker is paid a wage in exchange for providing to the employer what they own, namely their labor power for a set period of time.

Why does Marx call labor power a special form of commodities?

## How Is the Price of Labor Power (wages) Determined?

Labor is the measure of all value, but what is the value of labor? An hour of labor is equal to an hour of labor.

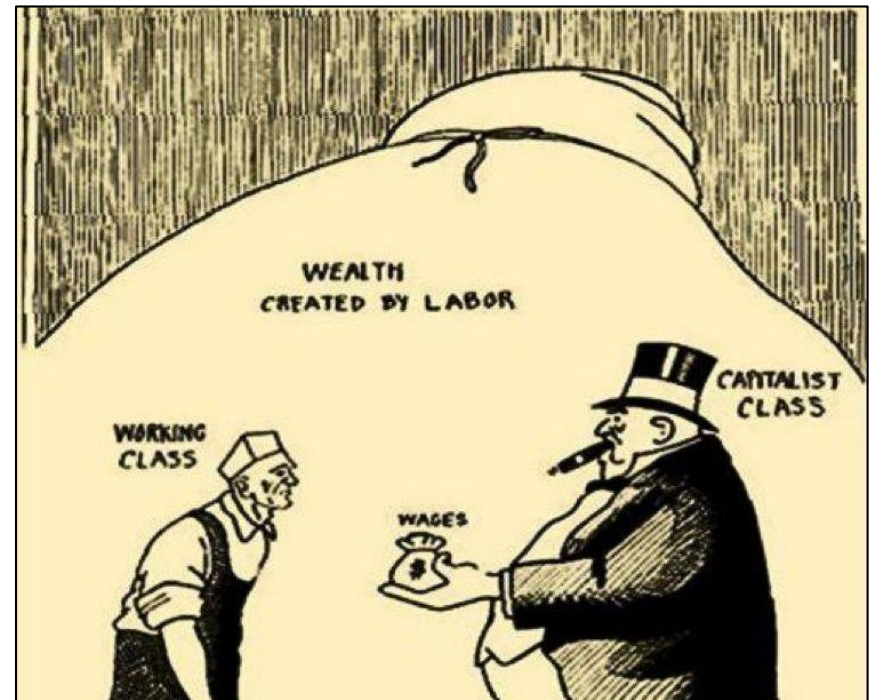
Thus Marx concluded that the commodity that workers sell is their labor power—their capacity to work. The value of labor power is the cost of production and reproduction of the worker or what the worker needs to survive. Wages are determined by the necessary means of existence for the worker to stay alive and to reproduce future generations of workers.

Capitalists have to pay workers enough for them to survive and keep working. There is an irreconcilable antagonism between labor and capital; capitalists try to drive down the price of labor power to make more profit. There is a struggle between the classes over the price of labor power; for example, workers go on strike to get a wage increase to improve their standard of living.

Are there workers working below their means of subsistence today?

# Surplus value

The goal of the employer in consuming the labor power they purchase is the commodity emerging at the end of the process of production, a commodity whose value (socially necessary labor time) exceeds the combined value of (1) the used up tools, equipment and raw materials, plus (2) the value of the wage paid for the purchased labor power. That excess, surplus value, is the driving objective of a capitalist employer.



## Surplus value (continued)

Workers struggle for a “standard of living.” Capitalists always try to reduce the average standard of living (value of labor power) while the workers fight to raise it.

Dividing the wage by the hours worked gives the false impression that the wage represents payment for the actual labor performed by the worker, rather than the labor power.

Bosses will try to squeeze more work out of the worker in the same amount of time.

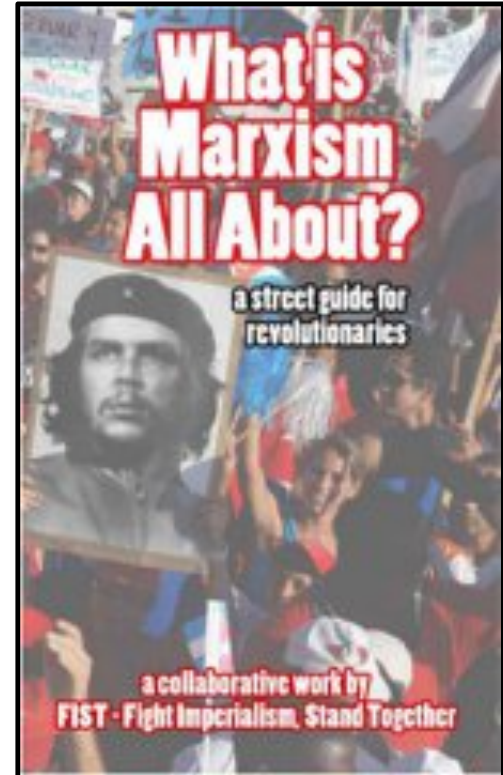




# Exploitation and Surplus Value

Human labor power is a commodity – a thing of value that, when used, creates value. It is from the labor of the worker that the owner derives profit. If a worker works 8 hours, a small percentage of that time is spent covering the cost of the worker's wage. The rest of the time is unpaid labor – surplus labor – and it is from this that the owner gains extra or surplus value.

*What Is Marxism All About? page 7*

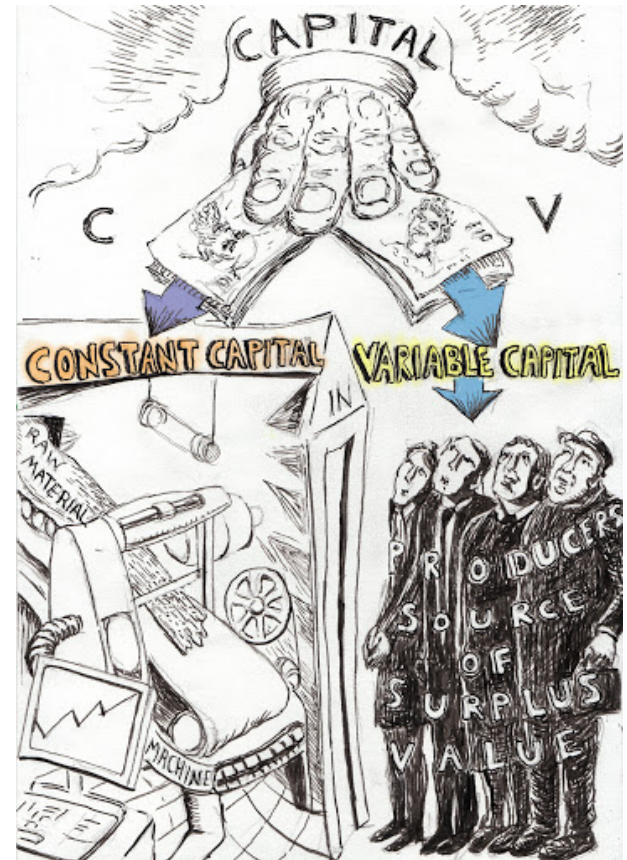




# Constant Capital and Variable Capital

**Constant capital** includes the materials, tools, machinery and components embodied in the commodity when it is sold. No matter how much materials, components and machines are bought and sold, they do not create any new value.

**Variable capital** is the amount of capital invested in wages, in the purchase of labor-power. It is the only capital which creates new value, because the worker is able to produce more than he [she] needs in order to live.



# Profit

“The selling price of commodities produced by the worker is divided, from the point of view of the capitalist, into three parts:

1. the replacement of the price of the raw materials advanced by [them], in addition to the replacement of the wear and tear of the tools, machines, and other instruments of labor likewise advanced by [them];
2. the replacement of the wages advanced; and
3. the surplus left over -- **the profit of the capitalist.**”

*Marx, Wage Labour and Capital (1847)*

# Profit (continued)

Profit is the money expression of surplus value.

One of the contradictions of capitalism is that profit tends to fall. The declining rate of profit is the underlying process behind the crisis of overproduction and the capitalist business cycle:

- Higher profits attract competition
- New method of production becomes the standard
- Lower value leads to lower price - and lower price leads to fall in rate of profit
- Expansion leads to overproduction
- Overproduction leads to crisis and contraction

# Declining Rate of Profit and Capitalist Crisis

In analyzing the decline of the labor unions and the rise of technology, Sam Marcy invoked Marx's law on the decline in the rate of profit in his book "High Tech, Low Pay."

"The bourgeois press is full of the wonders of high technology and the introduction of robots in almost fully automated factories. But they neglect to mention an extremely important element in the economic laws of motion governing capitalist society: Robots do not produce surplus value.



“As Marx demonstrated long ago, machinery or constant capital is the result of past labor and past surplus value. Profit does not come from machinery itself. It is the labor of a worker, known in Marxist terms as variable capital, that produces surplus value, from which profit is derived. Workers produce a greater value than they receive back in wages, and it is the unpaid portion of their labor that produces surplus value. But a robot is not a worker. A robot is fixed or constant capital, which does not produce profit. Only unpaid human labor produces profit.

“With fewer workers and more constant capital, the organic composition of capital changes, resulting in a falling rate of profit. This is an invariable law of the capitalist process of production. It cannot be gotten around.

“The more dead or constant capital and the less human or variable capital used in production, the higher the organic composition of capital. This invariably leads to a decline in [the rate of] profit.

“Despite this, the individual capitalists are driven to substitute labor-saving machinery for workers because it gives them a competitive advantage. For a certain period, the capitalist who is able to utilize the new technology and lower the unit cost of his product can actually enjoy a greater profit because the market reflects a generalized cost still based on the old technology. Eventually, however, the new technology itself becomes generalized and the rate of profit falls.

“The advantage to a higher composition of constant capital is always temporary. It spurs on destructive competition, in which much equipment that could still be socially useful is made prematurely obsolete.

“In order to compensate for the falling rate of profit, the owners are forced to increase the volume of profit. This can only be done by further increasing production.”

*Sam Marcy, High Tech, Low Pay (2009), pages 48-49*

# Overproduction

“The word overproduction in itself leads to error. So long as the most urgent needs of a large part of society are not satisfied, or only the most immediate needs are satisfied, there can of course be absolutely no talk of an over-production of products – in the sense that the amount of products is excessive in relation to the need for them. On the contrary, it must be said that on the basis of capitalist production, there is constant under-production in this sense. The limits to production are set by the profit of the capitalist and in no way by the needs of the producers.”

*Marx, Theories of Surplus Value (1863)*



# For Further Reading

Deirdre Griswold: “COVID-19 and basic facts of Marxist economics”

<https://www.workers.org/2020/04/47943/>

Karl Marx: “Value, Price and Profit”

<https://www.marxists.org/archive/marx/works/download/pdf/value-price-profit.pdf>

Sam Marcy: “High Tech, Low Pay: A Marxist Analysis of the Changing Character of the Working Class”

<https://www.workers.org/marcy/cd/samtech/index.htm>

“What Is Marxism All About?”

<https://www.workers.org/what-is-marxism-all-about/>

Fred Goldstein: “High-tech, low pay and capitalist crisis”

<https://www.workers.org/2019/01/40301/>

## Possible Discussion Questions

1. What are commodities and how are they different from items that are produced to be shared?
2. Explain why exchange evolved and why it depends on differences in **use values** and a **division of labor**.
3. What is the common social substance of all commodities?
4. Why did Marx call **money** a special forms of commodity?
5. Why did Marx call **labor power** a special forms of commodity?
6. Why does Marx say labor is not a commodity but labor power is a commodity?
7. Explain Marx's Labor Theory of Value.
8. Why don't workers receive higher wages when their bosses make a profit?