

*Principles of
Marxian Economics*

Why Study Marxian Economics?

- ◆ To understand the transition from planned economies to more market based economies you must understand the "starting positions" of these formerly planned economies.
- ◆ To gain a fuller understanding of what we know about market economies, it is useful to take a look at markets from the outside-in.
- ◆ Everyday you will hear Marxist statements.
- ◆ It's interesting.

Basic Concepts of Marxian Econ

- ◆ Class Struggle and History
- ◆ Labor Theory of Value
- ◆ Capital
- ◆ Capital Accumulation
- ◆ Prices and Value
- ◆ Exploitation
- ◆ Imperialism (Leninism)

Basic Concepts of Marxian Econ

- ◆ Class struggle as the fuel for historical change.
 - Stage 1 leads to classes
 - Classes struggle
 - Stage 2 emerges as a result of the struggle
 - Stage 2 sets the scene for the next class struggle

Basic Concepts of Marxian Econ

◆ The Labor Theory of Value

- The value of a product is derived from the amount of labor embodied in that product.
- While machines (variable capital) are used in production, these machines were produced by labor and can be viewed as “dead labor”.
- All value ultimately is derived from labor.

Basic Concepts of Marxian Econ

- ◆ Constant and Variable Capital
 - Constant capital like land has the potential to have its value transformed into another manifestation of value (wheat) by the application of labor
 - Variable capital like machines is “stored up” labor from the past.

Basic Concepts of Marxian Econ

- ◆ Capital Accumulation: Marxian capitalists are motivated by greed to accumulate more capital. This is different than the objective of profit maximization. In fact this greed is the ultimate fatal flaw for capitalists. If they were actually profit maximizers, they would at times substitute labor for capital. Instead, as we will see, the Marxian capitalists proceed to use less and less labor over time.

Basic Concepts of Marxian Econ

- ◆ Prices and Values: In Marx, prices are set in a monopolistic fashion.
- ◆ The wages of labor are set as low as possible to induce them to work and allow them to reproduce.
- ◆ The prices of products are set as in monopoly have little relation to the labor content of the product.
- ◆ Workers sell their labor at low prices, create value, and then must buy back the products they produced at high monopolistic prices.

Basic Concepts of Marxian Econ

- ◆ Exploitation: In Marx, all value ultimately derives from labor.
- ◆ Income received (surplus value captured) all represents value created by labor but not received by labor.
- ◆ Profits, rent, interest income, gains from speculation, and Renaissance Art all represent value created by workers but not received by workers.
- ◆ In short, what do capitalists do? They accumulate capital by exploiting workers. They create no new value themselves.

Other Marxian Concepts

- ◆ Divide and Conquer Strategies
- ◆ Religious Superstitions
- ◆ Commodity Fetishism
- ◆ Technological Change

The Underlying Contradiction of Market Capitalism

- ◆ Capitalism contains within itself the seeds of its own destruction.
- ◆ In this stage of history, capitalism will lead to a solidifying of the working class.
- ◆ As the working class gains consciousness they will struggle against the capitalists.
- ◆ Finally, workers will regain control over the means of production and form a new worker controlled society, setting up the next stage of history.

The Theoretical Process by which Capitalism turns into Socialism.

- ◆ Step 1: Capitalists, in their urge to accumulate capital substitute capital for labor.
 - Technological change in Marx can only occur to decrease the amount of labor needed to produce a good.
- ◆ As a result, the “reserved army of the unemployed will increase”.
- ◆ As a result of using less labor, capitalist will have less opportunity to exploit labor, and the rate of profit will fall.

The Theoretical Process by which Capitalism turns into socialism.

- ◆ Step 2: As the rate of profit falls, capitalists will respond in several ways.
 - Wages will be pushed down to even lower subsistence levels.
 - One capitalist will take over the capital of another capitalist as in a modern day merger.
 - Capitalists will search for less developed countries where there are “under-exploited markets, fixed capital, and workers”. Lenin introduced this strategy in his treatment of imperialism.

The Theoretical Process by which Capitalism turns into socialism.

- ◆ Step 3: In the (absurd) limit, there would only be one capitalist left and everyone else would be in the reserved army of the unemployed, and with no labor working, no value would be produced and profits would be zero.
- ◆ Before history reached this limiting result, workers in some countries will take over the property of the remaining capitalists and create a new state to administer this property as an agent for the working class. Marx saw this as happening first in Western Europe where capitalism was more advanced.

Comparison of Interpretations under Marxian and Western Economic Theory

Concept	Marxian Interpretation	Western Econ Interpretation
Prices	Monopolistically set by capitalists above labor costs.	Established at market equilibria. Useful in guiding resources to their “highest valued uses”.
Interest Rates		

Concept	Marxian Interpretation	Western Econ Interpretation
Wages		” .
Profits		

Concept	Marxian Interpretation	Western Econ Interpretation
Internat'l Trade		” .
Technological Change		

Concept	Marxian Interpretation	Western Econ Interpretation
Private Property		” .
Banking		

Concept	Marxian Interpretation	Western Econ Interpretation
Government		
Product Differentiation		

Concept	Marxian Interpretation	Western Econ Interpretation
Religion		
The Individual		

Policy Applications of Marxian Economics

- ◆ While there is little in Marx that describes the practical side of running the society which emerges after the fall of capitalism, the architects of the new Marxist/Leninist societies used Marxian economics as their guide to policy. In these societies it is common to observe the following policies:

Policy Applications of Marxian Economics

- ◆ Abolition of private property: All property is owned by the state as an agent for workers.
- ◆ Abolition of markets and use of market prices. Prices, if used, are set by the state.
- ◆ Abolition of banks and financial markets.
- ◆ Restriction of international trade with capitalist countries
- ◆ Standardization of consumer products
- ◆ Restriction of religion