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An Analysis of Karl Marx's Theory of Value on the Contemporary Capitalist Economy

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Abstract

The paper examines Karl Marx's theory of value and its implications on the contemporary capitalist economy. By doing this, the paper critically reviews the principles of Marx's value analysis by extrapolating from the writings of Karl Marx and Neo – Marxists which fits into the Marxian theory of value. The study indicates that capitalism does have an overall tendency to extract surplus value from labour provided by the workers, since it is the most malleable (influenced) of things within the confines of capitalism in the production process as noted by Marx. According to Marx, a system like capitalism, where people are coerced or forced to sell their labour in order to survive is unjust and that in the modern capitalist economy, the rate of profitability or success in production is determined by the ability to produce surplus value. In contemporary capitalist economy, during the production process, the worker uses his/her labour to produce adequate goods and services, but only receive wages enough for subsistence, hence making a surplus for the capitalist. However, the question still remains whether the labourers/workers/proletariats have a choice of selling their labour or not in order to survive in the contemporary capitalist economy as it were in orthodox capitalism?

Keywords: Capitalism, Socialism, Communism, Surplus Value, Exploitation, Bourgeoisie, Proletariat, Means of Production, Modes of Production, Profits, Wage

1. Introduction

More than hundred years after his death, Karl Marx's writings continue to attract interest across the world. Marx's life and work have continued to attract the attention of social scientists, trade unionists, labour unionists and many others. However, in his book Capital, Marx provides a uniquely insightful explanation of the inner working of capitalism and the articulation between distinct aspects of this economic system (Howard and King, 1991). In his writings, value plays an essential role in Marx's critique of capitalism (Vroey, 1982). This is not a simple concept, and it has been interpreted in widely different ways, virtually every controversy within Marxist economics is at bottom a controversy concerning the nature and status of value theory. Karl Marx disagreed with the principle of capitalism, that it creates working conditions viewed as unfair and unjust and wishing to replace it with a different method of production and social organization through revolution, which is socialism. His theory was based on his method of dialectical materialism.

Thus, Marx sees capitalism to be a historically specific mode of production. The way in which the productive property is owned and controlled, combined with the corresponding social relations between individuals based on their connection with the process of production, in which capitalism has become the dominant mode of production. Today, as posited by Marx, inequity and exploitation are the order of the day of the capitalist economy. In which the exchange value of labour power, as reflected in the wage, is less than the value it produces for the capitalist, that is, surplus value. This is heavily disguised by 'market' or capitalist ideology and by the vacuous discourse of 'globalization', while both have been fraying at the edges.

However, this article examines Marx's theory of value as it relates to its relevance to the contemporary capitalist economy. It seeks to explain the relationship between labour and exploitation in capitalism contradiction. In analyzing this, the paper critically reviews the principles of Marx's value analysis by extrapolating from the writings of Karl Marx and his followers (Neo – Marxists) which fit into Marxian theory of value. Based on the findings of this paper, it is expected to offer useful guidelines for further studies and help in formulation and adoption of various policies in the contemporary capitalist economy.

2. Review of Karl Marx's Theory of Value

2.1 Value

Value analysis is critically important for Marx, and its meaning and validity has been the subject of considerable debate (Ollman, 1993). Value theory is one of his economic theories. In developing this theory, he accepted David Ricardo's quantity theory of value, which in turn was partly borrowed from Adam Smith. Marx is said to have followed a traditional classical pattern by approaching value from the supply or cost production side. All theory of value before and after Marx had but one objective, which is the explanation of price, but how labour is exploited under a capitalist economy of profits (Smith, 1998). That is, theories of capitalistic exploitation other than theory of value (Okoh, 2002).

To Marx, the major characteristic of capitalism is the separation between owners of the means of production and non – owners of the means of production i.e. capitalist and worker. The exchange between capitalist and worker results in the bargaining of wages (Tamuno, 1999 and Harvey 1999). The wage of labour is the contradiction between labour value and the labour power. Labour as a commodity or the only factor of production, which is able to produce more than what goes into the produce itself. That is, labour is the only source of surplus and labour power is the value producing aspect. It is thus, the responsibility of labour power to create products. To perform the responsibility of creating products, labour services have to be purchased by the capitalist as a use value. In the view of Karl Marx, labour is quantitative. Labour is the physical amount of work time expended during production. This is the abstract labour and is in opposition to concrete labour which is labour in general, abstracted from the form of the activity. Marx identified it as the substance of value; hence, the relative value of any commodity depends on the amount of abstract labour for its production, since labour constitutes cost of production because capital itself is a stored labour (Tamuno, 1999).

To Marx, value means what a commodity is really worth as the result of certain amounts of labour which are directly or indirectly embodied in it. Its value has no direct relation to what price it will bring in a market. The sole basis for value of any commodity is the human labour expended in its production. Value then, consist of what man by his labour is able to add to basic materials already supplied in some form by nature.

2.2 Surplus Value

Marx in his discussion on the concept of surplus value said that in the purchase of use value of labour (service), the labour would be paid for something equivalent to the exchange value of labour time (Weeks, 1984). But when products created by the labour power command more exchange value, this excess or extra is known as surplus value (Shaikh, 1982). For Marx, this difference in value constitutes surplus value, which the capitalists extract and accumulate. This surplus value is not created in the process of exchange; it is indeed the worth of products produced within the labour time by labour power. However, surplus value is that part of the social value product appropriated by the capitalists. The surplus value is the difference between the value produced by the workers and value of labour power. There is exploitation if part of the social product is appropriated by a class of non – producers by custom or law, or under the threat or use of force, or because refusal to comply might disorganize the social reproduction.

2.3 Value of Labour Power

The value of labour power is the claim on abstract labour time workers receive for their labour power in the form of a money wage (Harvey, 1999). Workers in capitalist society do not bargain for, or receive, a bundle of commodities as payment for their labour power; they receive a sum of money, the money wage, which they are then free to spend as they wish. This implies that the workers are paid the maximum wage that they can get, and spend it in ways that do not have to be examined (Harvey, 1999).

The value of labour power is determined, as in the case of every other commodity, by the labour time necessary for the production and consequently also the reproduction, of the specific commodity. The labour time necessary for the production of labour power is the same as that necessary for the production of those means of subsistence; in other words, the value of labour power is the value of the means of subsistence necessary for the maintenance of its owner.

2.4 Surplus Value and Profit

The distinction between the concepts of surplus value and profit relates to volume of capital. Surplus value is the difference between the newly produced value and the value of labour power, while profit is the difference between the value for the product and the value of the constant and variable capital. The rate of exploitation measures the surplus value created per unit of variable capital. In contrasts, the rate of profit measures capital's rate of growth, in which case the distinct role in production of the means of production and labour power is immaterial. (Roberts 1987). Marx asserted that labour is the source of all value, and thus of profit.

Marx subsequently considers the impact on the profit rate of changes in the quantity, quality and value of these inputs, and the implications of changes in the turnover time and the rate of surplus value. According to Postone (1993), Marx points out that the same factors that affect the general rate of profit may also lead to differences between the profit rates on individual capitalists in distinct sectors.

3. Karl Marx's View of The Capitalist Structure

To Marx, the major characteristic of capitalism is the separation between owners of the means of production (capitalists or bourgeoisie) and non – owners of the means of production (workers, labourers or proletariat). These two classes are in direct competition with one another. Marx does mention the middle class but ultimately aligns them with one of the other two classes. Capitalism is seen as a machine which is made up of the components of labour, capital, raw materials and markets.

Marx claim that due to economic inequality among these two classes, the purchase of labour cannot occur under "free conditions". Since capitalists control the means of production, (e.g. factories, businesses, machineries) and workers control only their labour, the worker is naturally coerced into allowing their labour to be exploited. He believes that private ownership of the means of production enriches the capitalists (owner of capital) at the expense of the workers ("the rich get richer and the poor get poorer"). The capitalists place a higher value on the monetary value of man rather than the unique characteristics of each person.

In brief, Marx argued that the owners of capital do not work and therefore steal from or exploit the workers. Gradually, the capitalists accumulate more and more capital and make the workers continually poorer, in the end causing a revolution. The private ownership of the means of production is therefore seen as a restriction on freedom. To the contrary, Karl Marx considered capitalism to be a historically specific mode of production and considered capitalism a phase of economic development that would pass and be replaced by pure communism.

4. The Implications of Marx's Theory of Value on The Contemporary Capitalist Economy

The implications of capitalist exploitation (surplus value) on the workers are revealed by the existence of profits, including interest, rent and other forms of profit. The rate of exploitation is measured by the profit wage ratio, with their share of the national income, the capitalist appropriate part of the national product, including the investment and luxury goods. The worker is only seen as part of the mechanism and not as a person. The capitalist are part of the system of capitalism and it is their role to exploit the worker because the entire system is profit driven (Shaikh, 1999).

In production, the workers create new value in proportion to the length of their workday, training, discipline, and the intensity of labour. The difference between the value newly produced by the working class and the value of labour power is the surplus value. The surplus value appears as profit; the residual left after paying the production costs. In short, the workers are exploited because they produce more value than they control or receive as wages. The exchange value of labour power as reflected in the wage is less than the value it produces for the capitalists.

Since some degree of unemployment is typical in modern capitalist economies, capitalists are also able to cut down wages to a semi starvation level and appropriate more and more surplus value. Hence, even if a worker contests his/her wage, the capitalist is able to find someone from the reserve army of labour who is more desperate to replace him/her. In order to counteract this tendency of declining profits, the capitalist will increase the degree of exploitation by reducing wages and lengthening the working day. This is the law of the increasing misery of the masses under capitalism, but when the capitalist is replacing the workers with machines, he is killing the goose that laid the golden eggs. According to Jhigan (2000), this will in turn reduce the surplus value, since the rate of profit is directly related to the rate of surplus value (rate of exploitation) (Vroey, 1982).

The private ownership of the means of production enriches capitalists (owners of capital) at the expense of the workers (“the rich get richer and the poor get poorer). According to Paul (2006), capitalist regulations, including the enforcement of private property on land and exclusive rights to natural resources, as unjustly enclosing upon what should be owned by all, forcing those without property to sell their labour to capitalists in an market favourable to the latter, thus forcing workers to accept low wages in order to survive. The physical or surplus analysis is Trans - historical and, therefore, excessive in general. It applies whenever the producers, as a class, are compelled to produce more than they themselves consume or control, the residual being appropriated by their masters, lords or employers. This level of analysis is important because it highlights the similarities between different modes of exploitation (Postone, 1993).

However, the worker in the capitalist system is often the most malleable of all the things in the capitalist machine to make more productive and thus, is often exploited. Once a system is in place using the components of capitalism, the system becomes static. The initial capital put up has already been spent and is a sunk cost into the capitalist machine. The raw materials usually remain the same once the cheapest ones are found. If those were static and everything else was as well then there would be no exploitation of workers contribution. However, the capitalists always seek to have market growth and a high profit margin. Since the market is growing, the capitalist machine must produce more. The raw materials can’t change and the capital has already been invested so the only factor left is the labour. Labour can be manipulated into more work since people are able to work harder if they are told to. While there is an upper limit on the productivity of labour, it will be driven to peak efficiency in order to ensure that the maximum amount of production is occurred. Since capitalists control the means of production and workers control only their labour, the worker is naturally coerced into allowing their labour to be exploited. Critics argue that exploitation occurs even if the exploited consents, since the definition of exploitation is independent of consent. In essence, workers must allow their labour to be exploited or face starvation, since some degree of unemployment is typical in modern capitalist economies.

For a company in a capitalist state to minimize cost so that they can provide the lowest price and be competitive in the market, they have to minimize costs by paying labour the lowest amount which would keep the price of their commodity down. If a capitalist should pay them more and the cost is passed on to the consumer, this could have a disastrous effect. If the price of the commodity is too high, it won’t be competitive and then everyone loses. Hence, the capitalist will keep on reducing the wage below the minimum level in order to accumulate surplus value for themselves leaving the workers with menial wage or nothing to go home with. This will lead to an impoverishment of the average living standard of the proletariats/workers or labourers in the contemporary capitalist economy (Nardinelli, 2008).

Contrarily, in contemporary or modern capitalism, according to Marx Weber, the contemporary capitalist economy is a rational organization of formally free labour. The idea of the formally free labour means that the labourer is both free to own property and free of the ability to reproduce his labour power, i.e. he is the victim of expropriation of his means of production. It is only on these conditions that modern capitalism is able to exist. In his book “the Protestant Ethic”, Weber further stated that money making, provided it is done legally, is within the modern economic order. That if God shows you a way in which you may lawfully get more than in another way (without wrong to your soul or to any other), and you refuse this, then choose the less gainful way, you cross one of the ends of your calling.

5. Conclusion

The theory of value as espoused by Marx is no doubt a theory of class relations and more specifically, a theory of exploitation. The concept of value is useful because it expresses the relations of exploitation under capitalism and allows them to be explained in spite of the deceptive appearances created by the predominance of voluntary market exchanges (Roberts, 1997). It has been observed in the study that in capitalist economy, the rate of success in production is determined by the ability to produce surplus value. As a criterion of profitability, surplus value refers to the difference between returns and costs. Surplus value indicates that the output has more value than the sacrifice made by labour for it, in other words, the output value is higher than the value (production cost) of the used inputs (labour). If the surplus value is positive, the capitalist’s profit expectation has been surpassed.

There is no doubt that capitalism does have an overall tendency to extract surplus value from labour since it is the most malleable of things within the confines of capitalism as noted by Marx. A system like capitalism in which people are forced to sell their labour to survive is unjust and not fair. Without any options, the labourer cannot be competitive and has no say over where they can sell their labour.

Finally, having x-rayed the value theory of labour, the question still remains whether the proletariats/workers still have a choice of selling their labour or not in order to survive in the contemporary capitalist economy as it were in the orthodox capitalism? This has remain a discourse that needs further study and has to be thoroughly researched

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