League for the Fifth International
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Published on ***League for the Fifth International*** (https://fifthinternational.org)

Marxist Theory of Political Economy

Mon, 04/09/2006 - 16:48

What is political economy? Students of economics are usually taught their subject in isolation from politics and history, but for Marxists the economic can only be analysed in a political way, here is why.

Economics has taken a battering over the last few years. Economists failed to predict the economic crisis that hit Asia in 1997. The Global Credit Crunch [1] seemed to appear out of nowhere, with most economists predicting the constant expansion of capitalism for many more years to come.

The Economist magazine wrongly predicted in January 1998 that the year ahead would see record world growth as it shrugged off the ?Asian contagion?. The Nobel Prize winners for economics on the board of hedge fund lost billions of dollars in 1999 by following their own theories.

Economics is more and more about mathematical modelling that abstracts from human relations and behaviour and reduces it to graphs and charts. It is not used as a scientific tool but as propaganda to ?talk up? the national or international economy. Most economists? incomes are tied to constant and rapid growth in stock markets ? so it is no surprise that their predictions err on the side of optimism. In fact all that economists generally do is look at the last 6 months of statistics and project the same trends forward. The kind of economics they teach in university barely equips people for any kind of critical thinking about the world around us and how it works.

What is economics really about?

Marxist political economy, in contrast, starts from relations between people and classes, and tries to understand the economy not as a perfect clockwork mechanism but as a dynamic system full of contradictions and doomed to be replaced.

Political economy is not about the relationship between commodities, prices, supply and demand: it is first and foremost about people and the social relationships between them ? about the owners of wealth and how they use it to exploit others; about what is produced and how. In that sense economics is both political and social and historical. Marxists do not agree with these artificial divisions in the academic world which tend to obscure how things are really interconnected together.

Classical economics

Marx did not begin from scratch: he started from the insights of ?classical? political economy ? a school of thought that the early capitalists gave birth to, as a means of advocating their new system against the defenders of feudalism.

The founders of modern political economy, Adam Smith and David Ricardo, were supporters of the new capitalist industrialists and bankers. They developed a labour theory of value which explained that the labour of the working class was the source of all new value, the profits at the heart of the capitalist system.

They showed that the value of a commodity ? which is something produced for sale on the market ? was determined by the amount of labour time it took to produce. They showed how all commodities exchanged according to equal amounts of labour within them.

Smith insisted that this equal exchange only applied to exchange of goods, not the exchange between a worker and a capitalist (wages for work). Otherwise, how was the existence of profits to be explained? Ricardo disagreed: workers and capitalists did exchange something of equal value. So where did profits come from then?

Ricardo witnessed the enormous strides in industrialisation in the early nineteenth century and with it productivity. He thought that it took less and less time to produce the goods workers needed and so the value of their wages used to buy them was able to decline. So profits grew at the expense of wages.

Early radicals seized on this to suggest that workers were being robbed: they came up with slogans demanding the ?full fruits of their labour". So from the 1830s onwards, as the class struggle began to intensify in Britain and Europe, a specialist caste of bourgeois economists arose whose job it was to mystify and obscure the origins of the capitalist?s wealth.

These economists rejected the labour theory of value, as it exposed too clearly the exploitation of the working class. And it is from the theories of these ?vulgar? economists that modern day capitalist economics originated. Despite the fact that the Thatcherite bosses called their think tank the ?Adam Smith Institute?, they reject Smith?s basic theory as too politically dangerous!

It was left to Marx and Engels in the 1840s to pick up from where Ricardo and Smith left off and develop the labour theory of value.

What Marx developed

Marx realised that the answer to the key problem of the political economy of capitalism lay in the two-sided nature of labour. The very concept of what ?labour? is needed to be made more concrete.

On the one side, like all commodities, labour has a ?use-value?. This means that there are many different types of concrete labour: plumbing, computer programming, and a variety of skills and training may be involved. On the other hand all these different types of labour are united at an abstract level by the fact that they can be reduced to a specific amount of social labour ? what Marx called ?abstract, general human labour?.

On the basis of this theory, Marx discovered that the exchange value of a commodity is determined by the abstract, average amount of labour contained within it. It is not decided by the level of skill of the craftsman or how much care someone took over its creation.

Unlike Smith and Ricardo [2], Marx realised that the distinction between use value and exchange value applied to labour itself. In fact it is not ?labour? that is a commodity being bought in the wage transaction: more accurately it was the ability to work: what he called labour power.

Labour power is what the capitalist buys with wages. The use-value of this is labour, which is unique. By setting the worker to work the expenditure of this labour produced more value than it itself contained. So the capitalist pays wages equal to the value of the goods and services the worker needs to survive and reproduce the next generation of workers.

The cost of labour power is socially determined. But for this the boss receives a commodity with a special power. The worker is contracted to labour for a certain duration and to a certain quality for the capitalist. Typically, a worker is employed for eight hours a day.

This creates eight hours worth of value, which is spread across the commodities the worker produces; it adds eight hours worth of value to the commodities. For example, if the worker produced one chair an hour then that chair would have one hour of value in it. If the worker produced a tin can every minute the tin can would contain one minute of value.

However, the cost of the worker?s reproduction is less than the value of the labour they add to production. During the eight hour day it may take only four hours to create the amount of value equivalent to the worker?s wage. But the worker does not go home after four hours. To receive their wage, equal to four hours worth of labour, they must stay at work for the duration of the eight hour working day.

In addition to the four hours worth of labour which pays their wages they create a new surplus value equal to four hours which belongs to the capitalist. This surplus value is the source of all profits under the capitalist system. This was Marx?s solution to the problems set by Ricardo?s labour theory of value. It is the cornerstone of Marx?s theory of capitalist economy. It unlocks the mystery of capitalist production.

Capitalist exploitation is not an unjust or unfair part of the capitalist system. The capitalists do not ?steal? their profits from the working class. Exploitation is an inherent and essential part of the system. It is the source of both the class struggle and economic crises, which are just as integral to this system.

The workers have no choice but to work, to be exploited, because we are deprived of owning the means of production. it is only the capitalists own the means of production, we are forced to work for them. Occasionally workers set up co-operatives or try and escape their exploitation by becoming small business people, but this option is only available to a tiny number. Most small business owners fail in the face of the stronger capitalists, and are forced back into the ranks of the working class.

Capital is not just machines, factories, money, stocks and shares: it is a social relation between people. Capital ? to the people that own it ? appears as a kind of self-expanding money. Under normal conditions, short of burying money in the ground, you cannot stop it making more money: put it in the bank and it makes 5 per cent; in a PEP it makes 7 or 8 per cent; in shares you can double your money. To the capitalist, it seems that it is money itself that ?makes money?. Hence the fat cat?s refrain, ?I let my money work for me?.

In fact it is only the labour of the working class that creates new value that translates into profit.

To own capital is to be part of the process of exploiting the working class. To live off your capital is to be part of a class whose material interest lies in screwing as much profit as possible out of the workers. Likewise the workers have no choice but to resist since the intensification of work, more job flexibility and holding down wages are among the most common methods the bosses use to raise efficiency and increase the rate of exploitation.

The class struggle is an intrinsic and permanent feature of the political economy of capitalism, as is the use of the police and judiciary to enforce this system against resistance from the exploited.

Once we understand the source of profits as the surplus value created by the working class the basic contradiction of capitalism ? one that points to its ultimate doom ? is opened up. In pursuit of profits the capitalists are forced into competitive innovation ? replacing human labour by machinery and technique.

A firm that introduces a technological change that cheapens production gains an advantage over its rivals

? in the short-term. But, to compete, the other companies will make the same if not better innovation.

Therefore, in the long-run the capitalists continually make innovations while putting workers ? the source of value ? on the dole. Marx called this the replacement of living labour by dead labour. But since only the living labour of the workers produces surplus value, the process of mechanisation and automation increasingly undermines the source of profit.

Hence Marx, like Smith and Ricardo, identified the tendency of the rate of profit to fall as a basic ?law? of economics ? one that could be offset by various factors, such as longer hours or new technology, but which, when unleashed, was the ultimate cause of crisis.

Marxist crisis theory
Unlike the failed theories of the capitalists ? all of which have to pretend there is nothing fundamentally wrong with their profit system, and which therefore cannot explain why the system regularly goes into crisis ? the Marxist theory predicts and explains regular crises and breakdowns of the system. Before capitalism, every economic crisis in history was a result of underproduction (for instance the crops would fail). But under capitalism there is already enough produced to meet the needs of every human being on the planet many times over.

Under capitalism, crises are caused by ***overproduction*** ? and this means the overproduction not just of useful things like food and fuel, but of every form of value ? of money, of property, of financial instruments. Crises are caused by the overaccumulation of capital. Through the course of the boom phase of a cycle, the rate of profit received by a capitalist ? his or her return on every pound invested ? gradually begins to fall. Marx explained how this was caused by the fact that capitalists compete with one another by raising productivity through introducing new technology, but that ultimately this reduces the proportion of their capital that is based on living human labour ? and this living labour is the real source of their profit.

The resulting tendency of the rate of profit to fall drives [3] capitalists to direct their money out of manufacturing in the more advanced countries and into speculation on the stock exchange, into property deals, or abroad into developing low wage economies. It also forces them to try to cut wages at home and employ migrant labour on terrible pay and conditions.

Eventually this pressure on the rate of profit causes the actual overall mass of profit to fall. Then the only way the capitalists can get back to turning a big enough profit is to devalue a mass of ?overvalued? capital. This is what economic crises are. That is why today banks are losing billions; why house and property prices plummet; why people are thrown out of their homes; why factories and shops will close in the years ahead; why inflation reduces the real value of wages. It is why the bosses will try to get us all to work harder for less and compete among each other for fewer jobs. It is also why the bosses of different countries will start fighting ? first at the negotiating table, but one day on the battlefield ? over who will bear the brunt of the devaluation.
The main problem is that in every country of the world the leaders of the official labour movement are unable to explain the crisis, unprepared to warn the workers, unwilling to organise the struggles. We must create a new leadership, able to wrest control of the working class movement out of the hands of these misleaders. One hundred and fifty years ago, Karl Marx wrote: ?These contradictions, of course, lead to explosions, crises? these regularly recurring catastrophes lead to their repetition on a higher scale, and finally to its violent overthrow.? Speed the day.

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Links:

[1] http://www.fifthinternational.org/content/publications/-credit-crunch-marxist-analysis

[2] http://www.marxists.org/archive/pilling/works/capital/geoff1.htm

[3] http://www.fifthinternational.org/content/mass-rate-and-marxist-rate-profit