Marx’s Critique of Capitalism

First, Marx does not offer a theory of price (as is the case with mainstream neo-classical theory (micro-economics). Instead, his interest is in seeing what are the mechanisms of capitalist reproduction. That is, what are the processes of capitalist production, what must happen, what must agents believe, what are the problems that need to be solved if the system is to keep going. Capital is subtitled, “A critique of Political Economy” in just this sense.

Second, Marx would not deny that there are huge differences between concrete capitalistic societies, e.g., the capitalism which he studied, American capitalism in the 1990s, Japanese or Philippine capitalism. He proceeded by abstraction and found what he thought were the essential or defining features of any capitalist society however different capitalist societies are, e.g., in their actual class arrangements, culture or politics. There was, for him, an ideal configuration. E.g., liberalism and capitalism work well together (for reasons which are not hard to find); but no society has to fit exactly this ideal configuration of elements.

Commodity Production

While all societies produce what they need (and usually also a social surplus), the form which products take when production is organized for generalized exchange is the commodity, goods and services which are sold. If there is to be exchange, products must have a use value in the plain sense that they are wanted for the properties they have. But their exchange ratios (why something costs twice as much as something else) cannot be explained in terms of the properties which give them use-value. The fundamental insight of the so-called “labor theory of value” is that commodities share in but one thing: they are all products of human labor. But not only are there all sorts of commodities, but there are all sorts of labor. How can products produced by different kinds of labor be commensurated? (On what dimension can they be compared and put into ratios?) Marx answers that when we exchange, we reduce ‘heterogeneous” labor to “abstract” labor. As he writes: “whenever, by an exchange, we equate as values our different products, by that very act, we also equate, as human labor, the different kinds of labor expended upon them” (Capital, I: 74).

What is produced may or may not represent what Marx calls “socially necessary labor-time,” roughly, the optimal use and allocation of labor, given existing technical conditions (I: 39). (The tendency of markets to move in this direction is what Marx calls “the law of value.” It compares to Smith’s “natural price.” For Marx, “value” (exchange value) equals price if and only if socially necessary labor-time was employed in production.) The “money-form” conceals both the “absurdity” of the reduction of heterogeneous labor to abstract labor-time and the fact that this allocation may or may not be “rational” (in the appropriate sense).

This is the point of the comparison to Robinson Crusoe and to a community of people rationally allocating their labor-time. Robinson knows how much time he can put into his various projects if he is to maintain himself and he decides what to do when. A “communist” community, having established its goals and resources, would do likewise. Feudalism (and similar pre-capitalist forms) provides a good intermediate case. The
peasants plant and harvest according to the seasons. Everyone is kept in his place by the ruling lord who holds power and decides what he will take from the serfs. In feudalism, Marx says, “there is no necessity for labour and its products to assume a fantastic form different from their reality (I: 77). Payments are in kind and “the social relations between individuals in the performance of their labour, appear at all events as their mutual personal relations, and are not disguised under the shape of social relations between the products of labor” (ibid.)

**Commodity Fetishism and Alienation**

It is just this “disguise” which Marx calls “commodity fetishism,” a form of alienation in which “a definite social relation between men,…assumes, in their eyes, the fantastic form of a relation between things” (I: 72). Our labor and our products are “priced.” This defines us as commodities and defines our relations to one another. “The value of a man,” as Hobbes had already noted, “is his worth, or what would be given for the use of his powers.” Similarly, when we look for job, we say that “the market” determines what jobs there are and what they pay. When we shop or look for housing, the “market” determines what is available and what we have to pay. We “relate” to one other impersonally as mutually interdependent commodities engaged in generalized exchange. Marx concludes that “political economy [from Adam Smith to Ricardo and with antecedents in Hobbes and Locke, ] has indeed analyzed, however incompletely, value and its magnitude…. But it has never asked the question why labour is represented by the value of its product and labour-time by the magnitude of that value. These formulae, which bear it stamped upon them in unmistakable letters that they belong to a state of society, in which the process of production has the mastery over man, instead of being controlled by him, such formulae appear… to be as much a self-evident necessity imposed by Nature as productive labour itself” (I: 81).

**Surplus value**

In nearly all known societies there is a social surplus. Surplus labor is the labor-time not used to maintain the worker. What counts as “maintenance” is conventional and varies historically. Thus, it may include not merely a dwelling, but a dwelling of certain sort. There must be surplus labor if cathedrals, e.g., are to be built and lords to be fed and clothed. In capitalism, however, surplus labor takes the form of surplus value: value created by the worker which is not necessary for his “maintenance.” Surplus value is the source of capitalist profit.

Consider the series C-M-C₁ where C represents commodities and M represents money. In this series, if buyers and sellers are “rational,” the money the seller of C got could only buy C₁ if its value equaled C. Unless somebody cheats (or is not “rational”) no profit is possible. Consider then M-C- M₁. If M₁ is greater than M, then there is only one commodity that can be purchased, labor-power, since it alone can create value. This is fairly obvious: no capitalist hires somebody to work for him unless that worker gets paid less than the value of what he produces. Of course, machines increase the efficiency of workers, but not only do machines need workers but they also represent “concealed labor power;” they were also made by humans. Parenthetically, this fact is critical for Marx’s argument that there will be tendency for a falling rate of profit. Capitalists, necessarily
interested in cost-reduction, will try to cheapen labor costs, either by increasing the efficiency of workers or by finding workers who will work at lower wages. But this also reduces the value of the product and hence, the source of profit.)

**Exploitation**

In slavery and serfdom, exploitation is obvious. Everyone knows who has power and that coercion is available to enforce who gets what. In capitalism, as social relations are “disguised” and relations are literally, “impersonal,” being relations between things, so is exploitation. Marx agrees with conventional economists who insist that in capitalism, workers get “what they worth,” since as before, equals exchange for equals. So workers are not cheated by employers and no coercion is used against them. They accept their wages “voluntarily” and thus think of themselves as “free.” But “wage slavery” is still slavery since workers must sell their labor-power to those who own the means of life—the defining feature of capitalism and the fundamental division of class in capitalism. But since only labor can create value and profit has its source in surplus value, exploitation in capitalism is systemic (structural) even while it is “disguised.”

**Capitalism, Law and Government**

The foregoing all depends upon a juridical system which defines private property, contract and the rights of men. (See especially I: 76). Capitalist reproduction can minimize coercion if people accept liberal ideology including, critically, a “republican” form of regime in which they are “sovereign people” even if, on the one hand, as Rousseau, had noted, they have alienated all their power to “governments” and even if, accordingly, their governments act only to reproduce capitalism.

**Contradictions in Capitalism**

The fundamental contradiction is between private appropriation and social production. This is easily seen by expanding our M-C-M circuit. Money buys labor which creates another commodity, e.g., cars, which then must be sold if surplus is “realized.” This explains, of course, the huge efforts at marketing. But as it clear, if the workers are not paid enough to buy the cars, we will have a depression: Cars will sit in lots, workers will then get laid off making the problem even worse—in a increasing downward spiral.

There are a number of ways to address this problem (which for Marx, cannot in the long run be solved). One way is to open new markets: Globalization. Another way is to get the state to be a buyer: the defense industry, WW II, or for the state to subsidize, directly and indirectly, capitalists and consumption, e.g., through tax breaks, bailouts. (Keynes thought that this could be managed by manipulating taxes and the interest rate, which thus, influence “aggregate demand.”) So far, of course, Marx has been proven wrong: the contradictions have not created the conditions predicted by the Manifesto.

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