TITLE:: Marx's Analysis of Capitalism

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INTRO:: Robert Heilbroner's <i>The Worldly Philosophers</i> is a uniquely readable introduction to the lives and ideas of the great economic theorists of the last three centuries. The book has enlivened the study of economics for beginning students for more than 40 years.

Had Marx produced nothing more in his long years in exile than a revolutionary labor movement he would not still loom so important. His final contribution lies elsewhere: in his dialectical materialist theory of history, and even more important, in his pessimistic analysis of the outlook for a capitalist economy.

What was Marx's prognosis for the capitalist system that he knew?

The answer lies in that enormous work <i>Das Kapital (Capital).</i> It was 18 years in process; in 1851 it was to be done "in five weeks"; in 1859 "in six weeks"; in 1865 it was "done" -- a huge bundle of virtually illegible manuscripts which took two years to edit into Volume I. When Marx died in 1883 three volumes remained: Engels put out Volume II in 1885 and the third in 1894. The final (fourth) volume did not emerge until 1910.

There are 2,500 pages to read for anyone intrepid enough to make the effort. The great merit of the book, curiously enough, is its utter detachment from all considerations of morality. The book describes with fury, but it analyzes with cold logic. For what Marx has set for his goal is to discover the intrinsic tendencies of the capitalist system, its inner laws of motion, and in so doing, he has eschewed the easy but less convincing means of merely expatiating on its manifest shortcomings. Instead he erects the most rigorous, the purest capitalism imaginable, and within this rarefied abstract system, with an imaginary capitalism in which all the obvious defects of real life are removed, he seeks his quarry. For if he can prove that the best of all possible capitalisms is nonetheless headed for disaster, it is certainly easy to demonstrate that real capitalism will follow the same path, only quicker.

Marx's Perfect Capitalism

And so he sets the stage. We enter a world of perfect capitalism: no monopolies, no unions, no special advantages for anyone. It is a world in which every commodity sells at exactly its proper price. And that proper price is its value -- a tricky word. For the value of a commodity, says Marx, is the amount of labor it has within itself. If it takes twice as much labor to make hats as shoes, then hats will sell for twice the price of shoes. The labor, of course, need not be direct manual labor; it may be overhead labor that is spread over many commodities, or it may be the labor that once went into making a machine and that the machine now slowly passes on to the products it shapes. But no matter what its form, everything is eventually reducible to labor, and all commodities, in this perfect system, will be priced according to the amount of labor, direct or indirect, that they contain.

In this world stand the two great protagonists of the capitalist drama: worker and capitalist. The worker is a free bargaining agent who enters the market to dispose of the one commodity he commands -- labor power. The capitalist faces him in the arena. He is an owner-entrepreneur engaged in an endless race against his fellow owner-entrepreneurs; he must strive for accumulation, for in the competitive environment in which he operates, one accumulates or one gets accumulated.

The stage is set and the characters take their places. But now the first difficulty appears. How, asks Marx, can profits exist in such a situation? If everything sells for its exact value, then who gets an unearned increment? No one dares to raise his price above the competitive one. How can there be profit in the whole system if everything exchanges for its honest worth?

Profits are easy to explain if we assume that there are monopolies that need not obey the leveling influences of competition or if we admit that capitalists may pay labor less than it is worth. But Marx will have none of that -- it is to be ideal capitalism, which will dig its own grave.

He finds the answer to the dilemma in one commodity that is different from all others. The commodity is labor power. For the laborer, like the capitalist, sells his product for exactly what it is worth, for its value. And its value, like the value of everything else that is sold, is the amount of labor that goes into it.

The Value of Labor

The value of a workman is the money he needs in order to exist. It is his subsistence wage. So far, so good. But here comes the key to profit. The laborer who contracts to work can ask only for a wage that is his due. What that wage will be depends, as we have seen, on the amount of labor-time it takes to keep a man alive. If it takes six hours of society's labor per day to maintain a workingman, then (if labor is priced at one dollar an hour), he is "worth" six dollars a day. No more.

But the laborer who gets a job does not contract to work only six hours a day. That would be just long enough to support himself. On the contrary, he agrees to work a full eight-hour, or in Marx's time, a 10- or 11-hour day. Hence he will produce a full 10 or 11 hours' worth of value and he will get paid for only six. His wage will cover his subsistence, which is his true "value," but in return he will make available to the capitalist the value he produces in a full working day. And this is how profit enters the system.

Marx called this layer of unpaid work "surplus value."

The worker is entitled only to the value of his labor-power. He gets it in full. But meanwhile the capitalist gets the full value of his workers' whole working day, and this is longer than the hours for which he paid.

How can this state of affairs come about? It happens because the capitalists monopolize one thing: access to the means of production themselves. Under the legal arrangements of private property, capitalists "own" jobs, insofar as they own the machines and equipment without which men and women cannot work.

All capitalists have profits. But they are all in competition. Hence they try to accumulate, to expand their scales of output, at the expense of their competitors. But expansion is not so easy. It requires more laborers, and to get them the capitalists must bid against one another for the working force. Wages tend to rise. Conversely, surplus value tends to fall.

The Consequences of Innovation

Capitalists meet the threat of rising wages by introducing laborsaving machinery into their plants. This will throw part of the working force back onto the street, and there, as an Industrial Reserve Army, it will compete wages back down to their former "value" -- the subsistence level.

Now comes the crucial twist. It seems as though the capitalist has saved the day, for he has prevented wages from rising by creating unemployment through machinery. But by the very process through which he hopes to free himself from one horn of the dilemma, he impales himself on the other.

For as he substitutes machines for men, he simultaneously substitutes nonprofitable means of production for profitable ones. In Marx's model of an ideal capitalist world, no one makes a profit by merely sharp bargaining. Whatever a machine will be worth to a capitalist, you can be sure that he paid full value for it. It is only from his living labor that he can realize a profit, only from the unpaid-for hours of surplus working time. Hence, when he reduces the number or proportion of workers, he is killing the goose that lays the golden egg.

And yet, he has to. He is only obeying his impulse to accumulate and trying to stay abreast of his competitors. As his wages rise, he must introduce laborsaving machinery to cut his costs and rescue his profits -- if he does not, his neighbor will. But since he must substitute machinery for labor, he must also narrow the base out of which he gleans his profits. It is a kind of Greek drama where men go willynilly to their fate, and in which they all unwittingly cooperate to bring about their own destruction.

Commoditization

As his profits shrink, each capitalist will redouble his efforts to put new laborsaving, cost-cutting machinery in his factory. It is only by getting a step ahead of the parade that he can hope to make a profit. But since everyone is doing precisely the same thing, the rate of profit falls and falls. And now doom lies ahead. Profits are cut to the point at which production is no longer profitable at all. Consumption dwindles as machines displace men and the number of employed fails to keep pace with output. Bankruptcies ensue. There is a scramble to dump goods on the market, and in the process smaller firms go under. A capitalist crisis is at hand.

A crisis does not mean the end of the game. Quite the contrary. As workers are thrown out of work, they are forced to accept subvalue wages. As machinery is dumped, the stronger capitalists can acquire machines for less than their true value. After a time, surplus value reappears. The forward march is taken up again. Thus each crisis serves to renew the capacity of the system to expand. Crisis -- or a business slump or recession, in modern terminology -- is therefore the way the system works, not the way it fails.

But the working is certainly very peculiar. Each renewal leads to the same ending: competition for workers; higher wages; labor-displacing machinery; a smaller base for surplus value; still more frenzied competition; another crisis -- worse than the preceding one. For during each period of crisis, the bigger firms absorb the smaller ones, and when the industrial monsters eventually go down, the wreckage is far greater than when the little enterprises buckle.

The Gulf Between Rich and Poor

Finally, the drama ends. Marx's picture of it has all the eloquence of a description of a Damnation:

"Along with the constantly diminishing number of the magnates of capital, who usurp and monopolize all advantages of this process of transformation, grows the mass of misery, oppression, slavery, degradation, exploitation; but with this too grows the revolt of the working-class, a class always increasing in numbers, and disciplined, united, organized by the very mechanism of the process of capitalist production itself.... Centralization of the means of production and socialization of labor at last reach a point where they become incompatible with their capitalist integument. This integument bursts asunder. The knell of capitalist private property sounds. The expropriators are expropriated."

How sharply all this contrasts with earlier views! For Adam Smith, the capitalist escalator climbed upward, at least as far as the eye could reasonably see. For [David] Ricardo that upward motion was stalled by the pressure of mouths on insufficient crop land, which brought a stalemate to progress and a windfall to the fortunate landlord. For Mill the vista was made more reassuring by his discovery that society could distribute its product as it saw fit, regardless of what "economic laws" seemed to dictate. But for Marx even that saving possibility was untenable. For the materialist view of history told him that the state was only the political ruling organ of the economic rulers. The thought that it might act as a kind of referee, a third force balancing the claims of its conflicting members, would have seemed sheer wishful thinking. No, there was no escape from the inner logic, the dialectical development of a system that would not only destroy itself but, in so doing, would give birth to its successor.

Beyond Capitalism, What?

As to what that successor might look like, Marx had little to say. It would be "classless," of course -- by which Marx meant that the basis for an economic division of society based on property would be removed once society owned all the means of production of goods. Just how society would "own" its factories; what was meant by "society"; whether there would or could be bitter antagonisms between the managers and the managed, between the political chieftains and the rank and file -- none of this did Marx discuss. During a transitional period of "socialism" there would be a "dictatorship of the proletariat"; after that, "pure" communism itself.

Marx, it must be kept in mind, was not the architect of actual socialism. That formidable task would fall to Lenin. <i>Das Kapital</i> is the Doomsday Book of capitalism, and in all of Marx there is almost nothing that looks beyond the Day of Judgment to see what the future might be like.

Flaws and Virtues of Marxist Theory

What are we to make of his apocalyptic argument?

There is an easy way of disposing of the whole thing. Remember that the system is built on value -- labor value -- and that the key to its demise lies in that special phenomenon called surplus value. But the real world consists not of "values" but of real tangible prices. Marx must show that the world of dollars and cents mirrors, in some approximate fashion, the abstract world that he has created. But in making the transition from a value-world to a price-world, he lands in the most terrible tangle of mathematics. In fact he makes a mistake.

It is not an irreparable mistake, and by going through an even worse tangle of mathematics one can make the Marxist equations come out "right." But when the equations were finally rectified, no one paid much attention. For regardless of its mathematical purity, there are problems galore in the Marxian model. Can we really use the concept of surplus value in a world of monopolies or in a setting of scientific technology? Has Marx really disposed of the difficulties of using "labor" as the measuring rod of value?

Questions such as these have tempted most non-Marxist economists to toss the whole scheme to one side as awkward and inflexible. But to do so overlooks two extraordinary properties of Marx's analysis.

First, it was more than just another "model" of economics. Marx literally invented a new task for social inquiry: the critique of economics itself. A great part of <i>Das Kapital</i> is devoted to showing that earlier economists had failed to understand the real challenge of the study they undertook.

Take for example, the perplexing question: how one can speak of "labor" as a common denominator of value when the actual labors of men and women are so different.

Marx, said that capitalist society creates a special kind of labor, abstract labor, labor that is detached from the special personal attributes of a precapitalist world, labor that can be bought and sold like so much wheat or coal. The real insight of a "labor theory of value" is not the determination of prices, but the identification of a kind of social system in which labor power becomes a commodity. That society is capitalism, where historical forces have created a property-less class of workers who have no alternative but to sell their labor-power -- their sheer ability to work -- as a commodity.

Thus Marx invented a kind of "socio-analysis" that puts economics itself into a wholly new light. And beyond that signal contribution, Marx's model of capitalism, despite its clumsiness, seemed to come alive, to unfold in an extraordinary manner. Given its basic assumptions -- the characters, their motives and their milieu, the situation it presented changed, and changed in a way that was foreseeable. We have seen what these changes were: how profits fell, how capitalists sought new machinery, how each boom ended in a crash, how small businesses were absorbed in each debacle by the larger firms. Marx called these trends the "laws of motion" of a capitalist system -- the path that capitalism would tread over future time. And the astonishing fact is that so many of these predictions have come true.

For profits do tend to fall in a capitalist economy. And as any businessman will vouchsafe, the pressures of competition and rising wages do indeed cut profits. Impregnable monopolies aside (and these are few), no business can permanently maintain its prices much above its costs. There is only one way in which profits can be perpetuated. A business -- or an entire economy -- must grow.

But the need for growth implies the second prediction of the Marxist model: the ceaseless quest for new techniques. Business must innovate, invent, and experiment if it is to survive; the business that rests content on its past achievements is not long for this enterprising world.

The Marxist model showed three more tendencies for capitalism which have also come to pass. We hardly need document the existence of business crises over the past hundred years or the emergence of giant business enterprise. But we might remark on the daring of Marx's predictions. A propensity to crisis -- what we would call business cycles -- was not recognized as an inherent feature of capitalism by any other economist of Marx's time, although future events have certainly vindicated his prediction of successive boom and crash. And in the world of business, when <i>Capital</i> appeared, bigness was the exception rather than the rule, and small enterprise still ruled the roost. To claim that huge firms would come to dominate the business scene was as startling a prediction in 1867 as would be a statement today that 50 years hence America will be a land in which small-scale proprietorships will have displaced giant corporations.

Last, Marx believed that the small independent artisan or self-employed worker would be unable to resist the pressures of mass production, and that an ever larger fraction of the work force would have to sell its labor-power on the market -- that is, to become a "proletarian." Has that come true? Well, in the first quarter of the 19th century about three-quarters of all Americans worked for themselves, on the farm or in small shops. Today only about 10 percent of the labor force is self-employed. We may not think of an office worker or a bus driver or a bank teller as a proletarian, but in Marx's terms these are all workers who must offer their labor-power to capitalists, unlike the farmer or the shoe cobbler, who own their own means of production.

All in all, the model displayed extraordinary predictive capacity. But note this: all these changes, vast and portentous as they were, could not have been unearthed purely by examining the world as it appeared to Marx's eyes. For there is no single representative figure for his vision -- no farsighted labor leader, no hero of the revolution-to-come. The representative "figure" in Marx's scenario is not a person but a process. It is the dialectical force of things that is the centerpiece of his vision.

It was not, of course, exact. Marx thought that profits would not only fall within the business cycle, which they do, but that they would display a long downward secular trend; this does not appear to have taken place. But for all its shortcomings the Marxist model of how capitalism worked was extraordinarily prophetic.

Will It Still Come True?

But there remains the final prediction of the model; for, as the reader will remember, in the end Marx's "pure capitalism" collapsed.

Let it be said at the outset that this prediction as well cannot be lightly brushed aside. In Russia and Eastern Europe, capitalism was displaced by socialism; in

Germany and Italy it drifted into fascism. And while wars, brute political power, exigencies of fate, and the determined efforts of revolutionaries have all contributed their share, the grim truth is that these changes occurred largely for the very reason Marx foresaw: capitalism broke down.

Why did it break down? Partly because it developed the instability Marx said it would. A succession of worsening business crises, compounded by a plague of wars, destroyed the faith of the lower and middle classes in the system. But that is not the entire answer. European capitalism failed not so much for economic as for social reasons -- and Marx foresaw this too!

For Marx recognized that the economic difficulties of the system were not insuperable. Although anti-monopoly legislation or anti-business-cycle policies were unknown in Marx's day, such activities were not inconceivable: there was nothing inevitable in the physical sense about Marx's vision. The Marxist prediction of decay was founded on a conception of capitalism in which it was politically impossible for a government to set the system's wrongs aright; ideologically, even emotionally, impossible. The cure for capitalism's failings would require that a government would have to rise above the interests of one class alone -- and that was to assume that men could free themselves from the shackles of their immediate economic self-interest. Marx's analysis made that doubtful.

It is just this lack of social flexibility, this bondage to shortsighted interest, that weakened European capitalism -- at least until after World War II. For one who has read the works of Marx it is frightening to look back at the grim determination with which so many nations steadfastly hewed to the very course that he insisted would lead to their undoing. It was as if their governments were unconsciously vindicating Marx's prophecy by obstinately doing exactly what he said they would. When in Russia under the tsars all democratic trade unionism was ruthlessly stamped out, when in England and Germany monopolies and cartels were officially encouraged, the Marxist dialectic looked balefully prescient indeed. All through the late 19th and early 20th centuries, when one inspected the enormous gulf between rich and poor and saw evidence of the total indifference of the former for the latter, one had the uneasy feeling that the psychological stereotypes that Marx cast in his historical drama were all too truly drawn from life.

Things moved differently in America during those years. America too had its share of reactionaries and revolutionaries. The economic history of the United States contains more than enough exploitation and ugliness. But capitalism here evolved in a land untouched by the dead hand of aristocratic lineage and age-old class attitudes. To some degree this resulted in a harsher social climate in America than in Europe, for America clung the credo of "rugged individualism" long after the individual had been hopelessly overwhelmed by the environment of massive industrialism. Yet out of the American milieu came a certain pragmatism in dealing with power, private as well as public, and a general subscription to the ideals of democracy which steered the body politic safely past the rocks on which it foundered in so many nations abroad.

It is in these capabilities for change that the answer to Marxian analysis lies. Indeed, the more we examine the history of capitalism, especially in recent decades, the more we learn both to respect the penetration of Marx's thought and to recognize its limitations. The problems he diagnosed within capitalism are still very much with us, including above all a tendency to economic instability and to the concentration of wealth and power. Yet in different nations we find widely different responses to these problems.

The point, in weighing Marx's powerful vision and the analytics that follow from it, is his failure to make allowances for the role of sociopolitical culture, an element he barely mentions. There is a spectrum of views and values on the prerogatives of capital, the centrality of the market, and the respective roles of the private and the public sectors in all nations whose institutions are capitalist. It is in this spectrum of institutions, behaviors, and attitudes that the successor vision to Marx must be sought.