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# UNIT 2 MARXIAN THEORY

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## 2.1 INTRODUCTION

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In the previous unit, you studied the classical theories of development. In this unit, we concentrate on the Marxian theory of development. It was propounded by Karl Marx. Karl Heinrich Marx is among the most influential thinkers, writers, philosophers, and economists of the 20<sup>th</sup> century. He is the celebrated author of *Das Capital*. Marx's approach to understanding the economy is intellectually independent of his advocacy of revolutionary socialism. Adherents of Marxian theory consider Marx's economic theories to be the basis of a viable analytic framework, and an alternative to more conventional neo classical economics. Marx was the first person to predict the inevitable doom of capitalism. He said, capitalism is destined to collapse, not because of population growth, diminishing returns, or stagnation, but due to sociological reasons, i.e., the class struggle. The concept of socialism entered the main currents of economic doctrines because of Marx. The Marxist school of thought challenged the foundations of classical theory.

After studying this unit you should be able to:

- explain Marxian philosophy and the Marxian theory of capital accumulation;
- narrate the Marxian theory of economic development;
- illustrate the theory of surplus value; and
- give a critical appraisal of Marxian theory.

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## 2.2 MARXIAN PHILOSOPHY

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Before going into the Marxian theory of development, it is essential to know about Marxian philosophy. Marx's philosophy is known as Dialectical Materialism. According to his philosophy, matter is the driving force of all historical changes. By matter, he meant man's relationship to nature as characterized by the mode of production. Thus, Marx gave an economic interpretation of history which can be summarized in two propositions:

- i) The basic factor in the historical evolution of society is the mode of production. It is the mode of production that explains the whole superstructure of ideas and institutions.
- ii) Society develops in accordance with the dialectical principle inherent in its structure. Marx maintained that, historically, social change takes place in a regular pattern.

The sequence of the Marxian stages of social evolution is: primitive communism, slavery, feudalism, capitalism, and socialism. Marx attempted to explain how contradictions in the capitalist system will lead to the downfall of this system which will be replaced by socialism.

The two important constituents of Marxian philosophy are

- i) Dialectical Materialism and
- ii) Historical Materialism.

These are discussed below.

### **i) Dialectical Materialism**

Marxian philosophy is termed Dialectical Materialism. Marx's philosophical disposition was greatly influenced by, and at the same time vigorously opposed by, the German philosopher, Hegel. The influence of Hegel is clear in Marx's adoption of Hegel's Dialectical Method. Dialectical Method assumes a definite logical position which maintains that we reach a higher concept by negative judgments, which, because of the negation, is richer than the original one. Any finite concept, when considered as a predicate of reality (thesis) will lead us to its opposite (antithesis). But as the contradiction is repulsive to the original, the cycle does not stop there. Society moves to the third stage, synthesis, which reconciles the mutually opposed concepts, and provides a better description of reality. Thus, in the dialectical process, the thesis and the antithesis do not cancel each other, but are preserved and enriched in the synthesis.

According to Hegel, the world is in the process of continuous development and development takes place according to the dialectical formula. In this respect, Marx, agrees with Hegel. However, he differs on the question of the motive force of development. For Hegel, the motive force is a mystical entity, i.e., spirit, which causes human history to develop according to the dialectical process. Hegel's philosophy was Dialectical Idealism. Marx, on the contrary, evolved a philosophy of Dialectical Materialism in which he considered matter, and not spirit, as the driving force of historical development. It is this philosophy of dialectical materialism on which Marx based his materialistic interpretation of history.

### **ii) Historical Materialism**

Now, let us discuss the historical materialism put forward for consideration by Marx. Marx applied his philosophical ideas to society and gave an economic interpretation of history. Historical materialism is the study of society and the laws of its development. Historical materialism, as a philosophy has the following features

- i) It is a philosophical study which deals with objective laws of social development. These laws are independent of man's consciousness. Like the laws of nature, they are knowable and are applied by man in his practical activity.
- ii) It deals with social laws as distinct from the laws of nature. The laws of nature reflect the operation of spontaneous forces, while the laws of social development are always manifested through people who act as intelligent beings. As society is inseparable from men, social laws manifest themselves only through human activity.
- iii) It studies the general objective laws governing the development of society. It investigates the most general phases of world history and the objective causes of their appearance and disappearance.
- iv) It is more than a method of investigating social phenomena. It explains historical tendencies. History proceeds from lower to higher forms of social organization. The change to higher forms is inevitable, because the old forms stand in the way of further progress.

The subject matter of historical materialism includes the study of

- the mode of production
- the dialectics of the mode of production
- the historical evolution of society.

#### a) **The Mode of Production**

The mode of production has logic of its own. According to Marx, the production of material wealth is the basis of human existence, and the mode of production of wealth is the determining factor of social development. Society as a distinct entity is a part of nature. It is inseparable from the rest of nature, and constantly interacts with it. People cannot exist without food, clothing, shelter, and other necessities of life. Nature, however, does not provide things readymade. Thus, people must work to produce these things. Labour, or productive activity, is, therefore, the basis of social life.

The mode of production, which determines the economic structure of society, has two aspects: (i) the forces of production, and (ii) the relations of production.

- i) **The forces of production:** This refers to
  - the organization, skill and status of labour
  - the techniques and traditions of production
  - the geographical conditions and degree of knowledge to utilize materials and resources.

The forces of production determine the relationship between man and nature. Regardless of the form of society, the interaction between man and nature consists in the unity of three elements

- i) labour
- ii) the objects of labour
- iii) the means of labour.

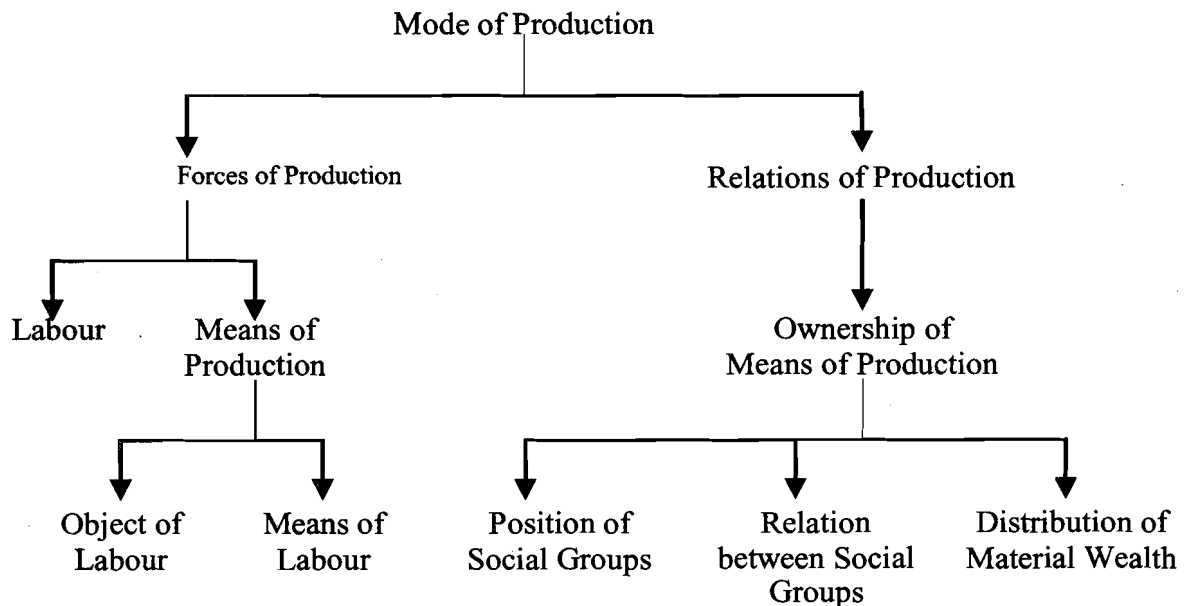
Labour is productive human activity that is aimed at transforming natural objects to satisfy human wants. The objects of labour are the things to which human labour is applied. In the earth, all raw materials, is the universal object of labour. The means of labour are the things used by man to act upon objects of labour. They include all instruments of labour such as, machines, tools, buildings, transport, etc. Objects and means of labour together are called means of production. The means of production refers to the sum total of material conditions, without which production is impossible.

**ii) The Relations of Production** This refers to a particular set of property relations which determines the nature of society's class structure. The relations of production, or the economic relations between people, determine the relation between man and machine. These relations are called production relations. According to Marx, production relations are based on the form of ownership of means of production.

The form of ownership depends on

- a) the position (dominating, or subordinate) of various social groups in production
- b) their relations (exploitative, or cooperative) in the production process
- c) the distribution of wealth, i.e., mutual exchange of their activity.

The components of the mode of production are summarized in the following chart



**b) Dialectics of the Mode of Production**

Society develops in accordance with the dialectical principle inherent in its structure. This means that the mode of production has a logic of its own. The mode of production changes because of inherent necessity, and is not due to any external force. The working of the mode of production is governed by three laws:

- i) **The Law of Unity:** This law states that the productive forces and the production relations, taken together, determine the mode of production of material wealth. They are linked by an inner unity, i.e., a specific level of productive forces requires specific production relations.
- ii) **The Law of Correspondence:** This law states that production relations tend to correspond to productive forces. The changes in the productive forces induce adjustment in the production relations. The correspondence of production relations to productive forces operates only as an economic tendency. It imposes no rigid mechanical dependence of the former on the latter. It is not a 'law of obligatory correspondence'.
- iii) **The Law of Conflict:** This law states that conflict stems from the intrinsic nature of the two sides of the mode of production, i.e., the forces of production, and the relations of production. This conflict is not accidental. It is inherent in the mode of production. It brings development in the mode of production.

### c) Historical Evolution of Society

The relations of production form the economic basis of the society, while political and legal views, and ideology and institutions make up its superstructure. The superstructure is determined by, and acts on, economic basis. The historical sum total of productive forces, economic basis, and the superstructure make up the socioeconomic system. The totality of production relations (property, peoples' relations, and distribution of wealth) constitutes the economic basis of a society. The economic basis plays an important role in the society. It serves as the real foundation of social superstructure, which includes political, legal, philosophical, moral, religious, artistic, and their corresponding relations, institutions, and organizations. Thus, the economic basis is that aspect of the mode of production which directly moulds the face of society, its ideas, and institutions. The superstructure plays a very significant role in social development. According to Marx, the history of society consists of the history of the sequence of socioeconomic formations, or the replacement of one mode of production by another.

According to him there are five different stages of social evolution

- i) primitive communism
- ii) slavery
- iii) feudalism
- iv) capitalism
- v) socialism.

Class relations do change with the change in the socioeconomic structure of each stage.

In this section you have read about Marxian Dialectical Materialism and Historical Materialism. Now do the exercises given in *Check Your Progress 1*.

- Note:** a) Write your answer in about 50 words.  
 b) Check your answers with possible answers given at the end of the unit.

1) What are the main features of Dialectical Materialism?

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2) What are the dialectics of the mode of production?

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### **2.3 THE MARXIAN ECONOMIC SYSTEM**

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In this section, you will study the Marxian economic system in the context of development. The Marxian economic system is composed of four components

- a) The capitalist economic system
- b) The labour theory of value
- c) The theory of surplus value
- d) The theory of capital accumulation.

**a) The Capitalist Economic System.**

According to Marx, capitalism is an economic system with the following elements

- i) a capitalistic society is divided into two classes: the capitalists, and the workers. The capitalists own the means of production, while the workers do not. The workers sell their services, i.e., labour power, to the capitalists for wages.
- ii) a commodity forms the unit of production in a capitalistic society. A commodity is defined as the carrier of use-value (utility) and exchange-value (with other commodities).
- iii) the growth of capitalism is based on the exploitation of labour. Labour produces surplus value which is appropriated by the capitalist.
- iv) All commodities are produced with a profit motive and the exchange equation is m-C-M. The capitalist purchases commodity, C, (labour

power) with money,  $m$ , with an intention to sell it (after production) for profit,  $M$ .

- v) The motive force behind capitalism is profit. The capitalist always reinvests the profit in his business to upgrade technology.
- vi) Capitalists adopt labour saving machinery which creates a 'reserve army of the unemployed'. It results in growing the misery of the working class.

### b) The Labour Theory of Value.

According to Marx, the value of a commodity is determined by the quantity of labour required to produce it. One commodity has both use-value and exchange-value. When commodities represent use-values, they are qualitatively different due to the different forms of useful labour used in them. Marx was an advocate of the labour theory of value and believed that all production belongs to labour, because workers produce all value within society. Marx predicted that capitalism would produce growing misery for workers as competition for profit leads capitalists to adopt labour-saving machinery. The Marxian 'industrial reserve army' concept is another way of looking at 'technological unemployment'. It is not a biological law, but is an essential feature of the capitalist system. For Marx, a surplus population was largely the consequence of capitalistic tendencies of capital accumulation, labour displacing technological change, and the concentration of capital. The following points explain how the capitalistic process of production leads to the creation of an ever increasing population.

- i) Economic development under capitalism depends upon the accumulation of capital, which in turn, depends upon surplus value (or, profits). As long as there is profit, there will be continuous re-investment in the production process.
- ii) In static conditions, capitalists accumulate capital and reinvest it to expand production, and to reap further profits. Since all round expansion in production results in an increase in demand for labour (i.e., higher wages), the surplus value has a tendency to fall. It provides additional reason to accumulate more capital.
- iii) Under dynamic conditions, the greater amount of surplus value goes to those producers who are capable of producing advanced technology in production. Technological progress, according to Marx, means adoption of capital intensive and labour-replacing technology. Hence, the race for capital accumulation among the capitalists raises the capital output ratio, which, reduces profits. Ultimately, the capitalist suffers.

### c) The Theory of Surplus Value

Labour power has the unique characteristic of being capable of producing more than its own value when it is put to productive use. The excess of value produced by labour power over its own value is called surplus value. The aim of the capitalist is to, always, increase this surplus value. Surplus value refers to the extra labour of the worker, for which he receives nothing from the producer or employer. It is appropriated by the capitalist. This implies exploitation of labour. It is the only cause of class conflict, or class

struggle. Marx's theory of surplus value can be explained by the following set of equations.

$$\text{i) } Y = C + V + S$$

$$\text{ii) } s = S / V$$

$$\text{iii) } k = C / (C + V)$$

$$\text{iv) } \pi = S / (C + V) = s (1 - k) *$$

Where:  $Y$  = total income,  $C$  = constant capital,  $V$  = variable capital,  $S$  = surplus value,  $s$  = rate of surplus value,  $k$  = organic composition of capital (capital intensity) and  $\pi$  = rate of profit.

This equation shows that  $\pi$  is directly related to  $s$ , and inversely related to  $k$ . It means that the profitability of the producer depends, directly, on his capacity to exploit labour, and, indirectly, on the organic composition of capital. Due to severe competition, the capitalist tries to raise productivity. Therefore, the degree of automation rises, and, in turn, the organic composition of capital grows. It means that the rate of profit increases with the rise in exploitation of labour, and falls with the rise in constant capital. Therefore, the capitalist suffers from continual reduction of his profit and profitability. Capitalism has a built in doom. It will meet its natural death, eventually, in the long run.

$$* \text{ Proof: } \pi = S / (C + V) = SV / V(C + V)$$

$$= SV \frac{+ SC - SC}{V (C + V)} = \frac{S (C + V) - SC}{V(C + V)}$$

$$= \frac{S}{V} - \frac{SC}{V (C + V)} = \frac{S}{V} \left\{ 1 - \frac{C}{C + V} \right\} = s (1 - k)$$

#### d) The Theory of Capital Accumulation

Marx propounded the theory of capital accumulation. Marx contends that under static conditions capitalists are compelled to accumulate due to two reasons

- i) The emergence of surplus value in capitalist production induces the capitalist to accumulate, and to re-invest.
- ii) The mass effect of this all round expansion of production is an increase in the demand for labour, rise in wage rates, and reduction in surplus value, because surplus value is simply the excess of total produce over the subsistence produce. This provides another reason for an individual capitalist to accumulate.

A capitalist society is marked by continuous change. Under dynamic conditions, the larger share of surplus value goes to those producers who are able to introduce the most advanced and efficient technology in production. The race for capital accumulation among the capitalists', compel them to adopt new technology and gain huge profits. Capital accumulation depends upon the ability of the capitalists to raise the surplus value. Surplus value can be increased in three ways



- i) by reducing the wage rates
- ii) by extending the working hours
- iii) by increasing the productivity of labour.

The first method cannot be pursued for a long time as it curtails labour supply. The second method can be relied upon only temporarily. Thus, Marx put more emphasis on the third method of increasing productivity of labour. This involves technological improvements. Capital intensive techniques increase the total output produced by a given labour force and, thus, increase surplus value.

Capital accumulation and technological progress leads to the following three tendencies

### 1) The Concentration of Capital

Competition compels capitalists to reduce the price of their commodities. This is done by increasing the productivity of labour through capital intensive technology. But the small capitalists fail in this competition, so they are compelled to exit from their business. Marx terms it as “expropriators are expropriated”.

This tendency of concentration has three effects

- i) it results in a larger scale of production
- ii) the polarization between capitalists and workers is more sharpened
- iii) the capitalist production becomes social in nature, though in its property relations, it is still private.

An individual worker is now a part of a large social productive process, and an individual capitalist is the trustee of the society.

### 2) Immiserization of the Proletariat

Capital accumulation results in the growing misery of the working class. The process of immiserization (i.e., increased unemployment, and reduction in wages) of the proletariat operates in the following two ways

- i) Capitalism produces an industrial reserve army, or surplus toiling class. In other words, the capitalist system discards workers at a faster rate than it hires them. This is because of two reasons
  - a) Under dynamic conditions, when labour saving technology is adopted widely, the industrial reserve army has a tendency to grow
  - b) Due to the concentration of capital, larger capitalists prey on small capitalists. Thus, small producers who cannot face the competition from big producers also join the industrial army.
- ii) The condition of the few workers who remain employed also deteriorates because
  - a) Growing unemployment enables capitalists to reduce the wages to subsistence levels

- b) Capitalists also lengthen the working day and hours for more surplus
- c) Capitalists resort to hiring women and children at still lower wages than men.

**3) The Falling Rate of Profit**

Capital accumulation results in immiserization for the workers and falling rate of profits for the capitalists. According to Marx, the falling rate of profit is the consequence of two other basic tendencies

- i) Extensive use of capital intensive technology tends to increase capital per man, or the organic composition of capital (*k*). With capital accumulation, capitalists try to get maximum production at minimum costs through the use of capital intensive technology; and
- ii) Marx assumes constant rate of surplus value (*s*). These two tendencies lead to the third eventuality, *i.e.*, the falling rate of profit. This can be easily understood with the help of a fundamental equation,  $\pi = s(1 - k)$ . This equation implies that the rate of surplus value, the rise in organic composition of capital (*k*) reduces the rate of profit.

After having read this section, now you are familiar with the Marxian Economic System. On the basis of your understanding of this concept, answer the following questions in *Check Your Progress 2*.

**Check Your Progress 2**

- Note:**
- a) Write your answer in about 50 words.
  - b) Check your answers with possible answers given at the end of the unit.

1) What are the features of capitalism?

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2) Explain the essence of the Marxian theory of surplus value.

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**2.4 THE MARXIAN MODEL OF ECONOMIC DEVELOPMENT**

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In this section, you will study the Marxian model of economic development. According to Marx, secular economic growth at full employment is a contradiction. There is a class struggle due to the impoverishment of the

toiling class. Capital accumulation results in an ever increasing capital-output ratio, and declining profits. This economic development path is self destructive. Marx's theory of economic development is essentially an analysis of capital accumulation, and its effects. According to Marx, in order to reap greater profits, and to ensure their existence in the competitive economy, the capitalist producers tend to accumulate more and more capital, and to introduce mechanization in the process of production.

This tendency of capital accumulation and technological change has three effects

- i) it leads to the concentration of capital in the hands of a few entrepreneurs, and to the elimination of small entrepreneurs
- ii) it leads to the growing pauperization of the working class, and to the expansion of the industrial reserve army
- iii) it leads to the tendency of falling rates of profit.

All these effects are collectively responsible for the eventual breakdown of the capitalist system.

Marx has contributed to the theory of economic development in three ways

- i) he formulated the materialistic interpretation of history
- ii) he specified the motivating forces for economic development
- iii) he suggested an alternative path for planned economic development

Symbolically, the Marxian theory of economic development can be summarized by the following equation:

- 1) Total output (Q) depends on the size of labour force (L), amount of land (R), stock of capital (K), and technological progress (T).

$$Q = f(L, K, R, T),$$

- 2) Technological progress (T) depends on investment (I).

$$T = T(I)$$

- 3) Investment (I) depends on the rate of profit ( $\pi$ ).

$$I = I(\pi)$$

- 4) The rate of profit ( $\pi$ ) is the ratio of surplus value and capital.

$$\pi = S / (C+V)$$

- 5) Wages (W) depend on the level of investment and employment.

$$W = W(I, L)$$

- 6) Labour employment depends on the level of investment.

$$L = L(I)$$

- 7) Consumption Expenditure (E) depends on wage bill (W).

$$E = E(W)$$

8) Profits are determined by the level of technology and consumption.

$$\Pi = \Pi (T, E)$$

9) Total output (Q) is equal to profits ( $\pi$ ) plus wages (W).

$$Q = \Pi + W$$

10) The economy has two sectors: consumer goods and producer goods sectors. So, the total output is the sum of consumer goods and producer goods

$$Q = Dg + Kg = E + I$$

The equation is determinate, because the number of equations and unknowns are equal. Let us have a look at the system of equations in the Marxian model.

1	Production	$Q = f(L, K, R, T)$
2	Technology	$T = T(I)$
3	Investment	$I = I(\pi)$
4	Profit	$\Pi = \Pi(T, E)$
5	Employment	$L = L(W)$
6	Wage	$W = W(I, L)$
7	Total Output	$Q = Cg + Kg$
8	Wage Bill	$W = wL$
9	Rate of Profit	$\pi = S/(C+V)$
10	Total Income	$Y = C+V+S$
11	Capital	$K = C + V$

Where: E = consumption expenditure,  $\Pi$  = profit,  $\pi$  = rate of profit, K= Capital, W= wage bill, w = Wage rate, Dg= consumer good, Kg= capital goods, C= Constant capital, V= Variable capital, S= surplus value, L = Employment

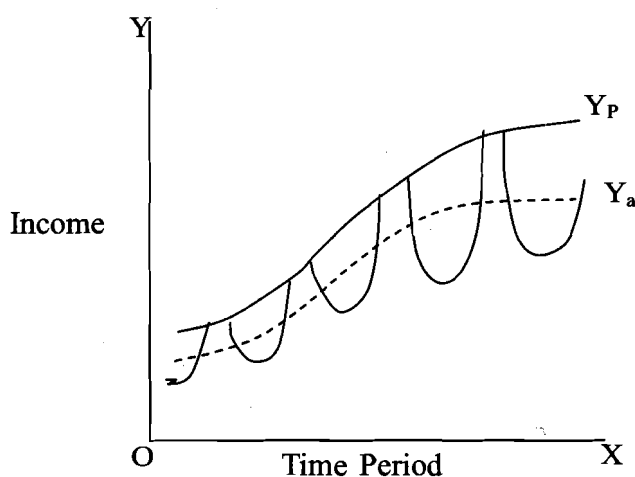
We can observe the circularity of the Marxian model. Let us start with profit as the prime mover of the capitalist system. High profit  $\rightarrow$  Competition  $\rightarrow$  Capital Intensive Technology  $\rightarrow$  Capital-Output ratio  $\rightarrow$  Profit fall. An increase in profits brings an increase in investment, and in the stock of capital, which permits capitalists to take advantage of the steady flow of improved technology. Intense competition leads to unemployment and a rise in the capital output ratio, and reduced profits.

In order to remain in the competitive race, capitalists must continually introduce technological improvements, which means accumulating more and more capital, and using more and more capital intensive techniques. As a result, capital stock (K) increases relative to output. Under these conditions, the only way to maintain the prevailing rate of profit ( $\pi$ ) is to increase the difference between output per man ( $q$ ) and the wage rate ( $w$ ). This objective can be achieved in the following ways

- reduce the wage rate to the bare minimum level
- add more labour saving techniques which raises  $q$  and keeps  $w$  at the minimum level
- increase hours of work, which raises  $q$  without increasing  $w$
- strengthen the monopoly position, which raises prices without raising wages.

According to Marx, all these measures to maintain the rate of profit prove self defeating. In the short run, they produce economic fluctuations. In the long run, these factors lead to the breakdown of the capitalist system. This is illustrated in the diagram below. The OY axis represents income and the OX axis represents time periods.

Fig. 2.1: Marxian Model



The classical economists were not concerned with the gap between potential and actual income. For them, the potential income would stagnate due to population growth. But, according to Marx, the picture of capitalist growth would be as shown in Fig. 1. There is growth in income until the downfall of capitalism through a revolution of the working classes. The figure shows that  $Y_p$  is the upper limit of the growth process. It is stable, but  $Y_a$  is unstable. The gap appears between the trend of potential GNP and the trend in actual GNP. But, this gap is the product solely of increasing amplitude of cycles. Since the national income, in real terms, can not rise above full employment levels, the increasing amplitude of fluctuations in real terms means increasingly severe downswings, which brings the trend of actual income further and further below the trend of potential income. In the short term, they produce economic fluctuations. In the long term, they lead to the breakdown of the capitalist system. Marx asserts that the capitalist system will ultimately collapse because of the following reasons, the falling rate of profit

- over production (market glut) due to high technology
- under consumption (low purchasing power) due to the immiserization process
- capital-intensive (labour-displacing) automations
- class struggle (conflict) due to rising income inequality

The economic crises, according to Marx, will have the secular effect of producing deeper and deeper depressions, and shorter and weaker booms. Despite the best efforts made by the capitalists, the rate of profit will continue to decline. During a boom, capital accumulations temporarily create full employment conditions and bring a temporary increase in wages. An increase in wages causes the rate of profit to fall, which leads to reduced investment and to depression. Everything that the entrepreneurs do to maintain profits, which increases the misery of the working class. Eventually, Marx predicts, the workers will not bear it, and, by sheer strength of their number, they will overthrow the capitalist system through revolution.

Marx, however, refers to a number of offsetting factors which arrest the general law of the falling rate of profit. These factors are

- i) technological progress may reduce the cost of constant capital
- ii) the capitalist keeps constant profit by increasing the rate of exploitation
- iii) intensified activities where weaker capitalists are expropriated

But, Marx firmly believed that these counteracting forces are temporary in nature and do not nullify the general tendency towards economic collapse. Ultimately, the expropriators are expropriated. The internal contradictions in the capitalist system bring about its own collapse. Eventually, the success of capitalism is not sustainable.

Having read the Marxian model of economic development in detail, now try and answer the following questions in *Check Your Progress 3*.

**Check Your Progress 3**

- Note:**
- a) Write your answer in about 50 words.
  - b) Check your answers with possible answers given at the end of the unit.

1) How has Marx contributed to the theory of economic development?

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2) What is the essence of the Marxian Development Model?

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**2.5 A CRITICAL APPRAISAL OF MARXIAN THEORY**

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Marx’s theory of economic development has been criticized on both theoretical and empirical grounds, as follows

- 1) Marxian theory makes a static analysis. Capitalist countries face different types of problems, which are not discussed by Marx. His analysis of crisis is outdated.
- 2) The theory of the falling tendency of profit is not correct. Competition raises capital productivity and improves efficiency which thwarts the tendency of declining profit.
- 3) The empirical evidence does not support Marx's predictions.
  - Contrary to Marx's prediction, industrial concentration has increased very little since the turn of the 20<sup>th</sup> century.
  - Undoubtedly, the capital intensity of production has increased, but, at the same time, the rate of capital accumulation has been very rapid. Technology does not create unemployment.
  - In the industrial capitalist world, the average real per capita income of the worker has increased, and the working conditions have greatly improved.
  - The cyclical fluctuations have not become severe and have not increased secularly.
- 4) Marx's analysis is more indicative rather than definitive. It is correct to say that technological change results in industrial concentration. However, we cannot say much, with certainty, about the generation of other tendencies.
  - It is uncertain that technical progress will increase the organic composition of capital.
  - It is uncertain that technological change will lead to growth in the industrial reserve army, or, to a fall in the rate of profit.
  - It is uncertain that both the growth of an industrial reserve army and the falling rate of profit will prevail at the same period of time.
- 5) Marx's theory of technological changes is not complete. He did not explain the response mechanism of the innovation process properly.
- 6) On the demand side, the excessive demand for capital during the capital accumulation process will make capital a relatively scarce factor. So, the producers seek every opportunity to save capital. Marx did not analyze capital saving technology.
- 7) It is wrong to assume a constant rate of surplus value along with a rising organic composition of capital ( $k$ ). A rise in  $k$  means an increase in labour productivity, which results in a higher rate of surplus value.
- 8) It is wrong to conclude that a rise in the organic composition of capital ( $k$ ) leads to a fall in profit. Any rise in  $k$  leads to an increase in productivity, and improvement in technology. Both these results tend to arrest the declining trend of profit.

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## 2.6 LET US SUM UP

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In this unit we have analyzed Marxian philosophy and the characteristics of the capitalistic economic system. We explained the Labour Theory of Value, the Theory of Surplus Value, and the Theory of Capital Accumulation. Finally, we studied the Marxian Model of Economic Development, and examined its validity, today.

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## 2.8 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

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### Check Your Progress 1

#### 1) What are the main features of dialectical materialism?

**Answer:** According to Marxian dialectical materialism, it is matter and not spirit which is the driving force of historical development. Marx wrote his materialistic interpretation of history on the the basis of dialectical materialism.



## 2) What are the dialectics of the mode of production?

**Answer:** Society develops in accordance with the dialectical principle inherent in its structure. This means that the mode of production has a logic of its own. The mode of production changes because of inherent necessity, and is not due to any external force. The working of the mode of production is governed by three laws:

- i) The law of unity
- ii) The law of correspondence
- iii) The law of conflict.

Based on these laws it states that the mode of production changes because of inherent necessity, and not due to any external force.

### Check Your Progress 2

#### 1) What are the features of capitalism?

**Answer:** According to Marx, capitalism is an economic system which has the following characteristics

- a capitalistic society is divided into two classes: the capitalists and the workers
- the growth of capitalism is based on the exploitation of labour
- the motive force behind capitalism is profit for reinvestment
- capitalists adopt capital intensive technology which creates the 'reserve army'
- capitalism results in class struggle due to immiserization of the working class.

#### 2) Explain the essence of the Marxian theory of surplus value.

**Answer:** Surplus value is the excess of value produced by labour power over its own value. It refers to the extra labour of the worker for which he receives nothing from the producer. It is appropriated by the capitalist. The theory of surplus value says that the rate of labour exploitation is

$$(s) = S / V, \text{ and the rate of profit } (\pi) = S / (C+V) = s (1 - k)$$

where: C = constant capital, V= variable capital, S = surplus value, k = organic composition of capital.

This equation implies that the profit of the producer directly depends on his capacity to exploit labour, and indirectly on the organic composition of capital.

### Check Your Progress 3

#### 1) How did Marx contribute to the theory of economic development?

**Answer:** Marx has contributed to the theory of economic development in three ways

- i) by giving a materialistic interpretation of history

- ii) by specifying the motivating forces of economic development
- iii) by suggesting an alternative path of planned economic development.

**2) What is the essence of the Marxian Development Model?**

**Answer:** Marx's model says that capitalism grows on the profit motive. It leads to the concentration of economic power. In the short run, this tendency produces economic fluctuations. In the long run, it leads to the breakdown of the capitalist system. The capitalistic system collapses because of

- a) the falling rate of profit
- b) overproduction (market glut), due to advanced technology
- c) underconsumption (low purchasing power), due to the immiserization process
- d) capital intensive (labour displacing) automations
- e) class struggle (conflict), due to rising income inequality.