

Socialism and Marxian economics: An overview

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Abstract

There is an open question on whether Marx's works are still relevant today. Some believe that Marx created much more than just his works—they believe that Marx created a “religion”, which has its consistent base of followers. However, works of Marx are often subject of misunderstandings. This paper will explore some of the famous Marx's concepts and will focus on detailed explanations regarding labour theory of value, capital accumulation, wages, tendency of the rate of profit to fall, the notion of crisis in Marx's works and class struggle between bourgeois and proletariat that was the central to the work of Marx. First part of the paper will describe the ideas of socialist economic thought that occurred before Karl Marx in details. The main, second part of the paper will describe and discuss the relevance of main Marx's ideas for today's society such as: (1) theory on commodity, value and circulation of commodity, (2) production process, (3) the law of the tendency of the rate of profit to fall, (4) crises, concentration of capital and decreasing competition, (5) wages. Finally, the last part of the paper, its conclusion, will discuss whether Karl Marx was right and to what extent, and will briefly discuss the failure of Marx's ideas in practice.

Keywords: Marx, socialism, communism, capitalism, crisis, competition

JEL classification: P10, P17, B00, B14, B30, B31

Introduction: Marx' life, works and influences

Karl Marx was born in 1818 in the German city of Trier. In his very early ages, Marx already started writing, e.g. *A young man's reflections on the choice of a career* was written when Marx was only 17 years old (Wolf, 2002). Marx entered the study of law in Bonn and a year later, transferred to Berlin. Apart from numerous accounts on this matter, his involvement in education and interest in the works of other scholars can be easily observed from his writings (Rima, 2001; Wolf, 2011). One such example would be the letter of Marx to his father in 1837, where Marx widely discussed all the things he had been able to accomplish in terms of his writing and furthermore, stated: "During the period of my poor health I had gotten to know Hegel from beginning to end, including most of his students" (Marx, 1837). The notion of Hegel in the letter is very interesting as Marx became quite interested in Hegel's ideas and had both adopted and applied some of them to his own work; while he widely criticised others (Rima, 2001). Already in his twenties, Karl Marx distanced himself from philosophy and started with more detailed studies in the fields of economics and political science. In 1841, Marx obtained his doctorate and had hopes for a perspective academic career (Wolf, 2011). However, as he did not succeed in his academic intentions, Marx became an editor of the magazine *Rheinische Zeitung* based in Cologne and even pursued what were thought to be "radical and anti-governmental lines of thought" (Wolf, 2002). Upon the loss of the job in the newspapers, Marx started with his frequent movements around Europe. He moved to Paris where he met Friedrich Engels, his associate with whom he had written numerous works (e.g. *Communist Manifesto*) and who completed *Capital II* and *Capital III* from Marx's original notes (Screpanti & Zamagi, 2005; Rima, 2001). Not so long after, he was expelled from France and moved to Belgium. He returned to Germany only in 1848, but only for a very brief period of time. (Wolf, 2002)

Some of the earlier writings of Marx include essays such as: *On Jewish question*, *Contribution to a critique of Hegel's philosophy of right*, *Theses on Feuerbach*, etc. Already in these early works, Marx strongly expressed his opinion on numerous topics. For example, in *Theses on Feuerbach*, he criticised philosophers stating: "Philosophers have only interpreted the world, in various ways; the point is to change it." (Marx, 1845) or in *Contribution to a critique of Hegel's philosophy of right*, he wrote one of his famously quoted lines: "Religion is the sigh of oppressed creature, the heart of heartless world, and the soul of soulless condition. It is the opium of the people." (Marx, 1843). Marx's early works, according to Wolf (2002), reflect three things: "his diagnosis of the ills of contemporary society; his critique of the state of existing theory; and his own attempts to provide a solution to the problems he has identified" (Wolf, 2002). In 1848, Marx and Engels published *Communist Manifesto*—manifesto that contrasts the status of capitalist and communist

society that was predicted to emerge. Their *Communist Manifesto* largely deals with the differences between bourgeois and proletariat and, contrary to what one might expect, does not offer even a single brief description on how communist society would actually function.

In 1849, Marx moved to London where he stayed with his family until the rest of his life. During his time in London, there was account of only one job he had performed at the time—he held a position of European correspondent for *New York Tribune*. Marx was financially unstable, often relying on loans or contributions from sponsors for the basic income. (Rima, 2001) Marx dedicated his London era to economic analysis and, at that time, published his most significant work: *Capital I*, in 1867. Marx's first intentions were to create six books that would address the topics of capital, landed property, wage labour, the state, foreign trade, landed property and finally, the world market. Before the first book was published, he decided that four books will be published instead, "one each on the production process of capital, the circulation process of capital, the forms of the process as a whole and finally one on the history of the theory of capital" (Hardach, Karras, & Fine, 1978). However, only the first volume of *Capital* was fully written by Marx.

In his work within the field of economics, Marx widely criticised the work of classical economists (Screpanti & Zamagi, 2005) and many philosophers throughout history. He thought that political economy expressed bourgeois attitudes and criticised classical economists for their inadequate explanation of profits and capital, as well as historical component of capital. Finally, another critique of classical economists was, according to Marx, their focus on the process of exchange rather than production due to their inability to observe exploitation caused by capitalists' modes of production. (Screpanti & Zamagi, 2005)

The idea of socialism and analysis of basic principles of Marxian economics

Idea of socialism

The name of Karl Marx is often put as an equivalent to all socialist ideas that exist. However, socialist ideas did not begin with Marx. Screpanti and Zamagi (2005) believe that, in a way, Marx was synthesiser of this period. The idea of socialism appeared almost simultaneously in Great Britain and France in the twenties and thirties of the 19th century (Hardach et al., 1978). Early socialists opposed the ideas of classical economists such as Malthus, Ricardo or Say, who believed that the social structure with ruling classes is some sort of natural law and one of the conditions for economic development of a country. Although early socialism was characterised by the presence of numerous heterogeneities, early socialists did agree that this new society to

be created should be freed from exploitation. Hardach et al. (1978) state that early socialists can be grouped according to their beliefs about competition—whether they believed that there should be large number of smaller producers within an economic system or it should be comprised out of few mass producers. Screpanti and Zamagi (2005) note that the reason for great heterogeneity of socialist ideas emerges from the fact that socialism meant the change in the social relationship, the relationship that existed between labour and capital. Rima (2001) notes that socialists devised two ways in which societal change from capitalism to socialist system might occur and those are: philosophical radicalism and socialist-anarchist model. Philosophical radicalism is a model based on reforms: it advocated preservation of elements of the existing system and deeply rooted belief of classical liberalism that well-being of all can be achieved by preservation of individual freedoms, but by imposing some government restrictions. Socialist-anarchist model is characterised by different views on how change will take place as they believed that state is largely protecting individual property rights only for the ruling class. What can be the drawback of both of these models is that their main proponents were members of intellectual elites, rather than members of working class. (Rima, 2001)

With the industrial revolution of 1848, the idea of socialism had become even more important and certainly, more widespread. Industrial revolution, besides revolutionising means of production, was believed to spread equality between members of society. That did not occur. Wealth in general did increase, but it was far from being equally spread across all members of the society. “As capitalism spread continuously into all areas of economic life, and while the resulting exploitation and emigration fuelled doubts as to benefits of the new mode of production, many economic proposals for improving the workers’ situation increasingly took on a socialist character. This socialism manifested itself in that the economic individualism of capitalism was now opposed by the principle of cooperation - collective action which excluded individual competition and the pursuit of profit.” (Hardach et al., 1978, pp. 16-30)

Some of the early socialists that can be mentioned are Joseph Proudhon and Thomas Hodgskin, both of which had very anarchist conceptions of change and how this new society should look like. Gracchus Babeuf had attempted to establish communist society at the end of eighteenth century, but failed and was accused of conspiracy. Other names that can be mentioned are Thomas Spence, or Charles Hall, who proposed agrarian reforms. (Hardach et al., 1978) Jean Charles Leonard Simonde de Sismondi criticised Say’s law implying that the reason it does not apply is due to inequality in distribution of income. His proposal for tackling the problem of inequality in distribution was to redistribute income from capitalists to workers. Sismondi is considered to be the forefather of the “social economy”. (Screpanti & Zamagi, 2005)

Marx and Engels in their *Communist Manifesto* discussed some of the socialist and communist literature produced earlier and mentioned the existence of: revolutionary socialism, conservative or bourgeois socialism and critical utopian socialism and communism. Among the critical utopian socialism they mentioned several famous names linked to the idea of socialism: Saint-Simon, Fourier and Owen, stating that these socialists did anticipate the existing class divisions within the society. They further state: “Therefore, although the originators of these systems were, in many respects, revolutionary, their disciples have, in every case, formed mere reactionary sects. They hold fast by the original views of their masters, in opposition to progressive historical development of the proletariat.” (Marx & Engels, 1848)

Saint-Simon was proponent of abolishment of competition and using state to enhance the progress in terms of science and production. His students equated the conditions granted to the workers under capitalism with the conditions granted to slaves. Fourier devised the theory about social units on different levels and system for land distribution. He also addressed the issue of alienation of labour. However, in the same way as Saint-Simon, Fourier believed that individual property should be preserved. At the same time in which Saint-Simon and Fourier devised theoretical aspects of socialism, English socialist, Owen, had different approach. Owen had applied some of the ideas in practice. He himself owned a factory and believed that factories in general are the central points of societies. Although admirable, his attempts to establish models of community were short-lived. So-called “Ricardian socialists” were followers of Owen: William Thompson, John Gray, John Francis Bray, Thomas Hodgskin¹ and Piercy Ravenston². (Rima, 2001; Hardach et al., 1978; Screpanti & Zamagi, 2005)

Marx can be considered the father of modern socialism and belongs to the branch of scientific socialism³. Rima (2001) states that there are three influences on Marxian economic thought, one of them being early socialistic thought that previously existed while the other two are: Hegel’s philosophy of history and Ricardian economics (labour theory of value). Marx widely criticised some of the early socialist in various respects. It is important to mention that, at the time Marx wrote his most important work, capitalism was rooted into every pore of the society, which was not true for the times when some of early socialists’ works were developed. Marx often argued that early socialist emphasised the importance of improving the standards of living for everyone, while in Marx’s opinion, proletariat suffered the most by capitalism.

¹ Hodgskin’s important contribution was distinguishing between natural and social price, where natural price is defined by the natural law and social price is the price that is being employed and present in the society.

² Piercy Ravenston is pseudonym used by unknown economist.

³ As opposed to utopian socialism.

Mode of production involves means of production and technology related to the means of production, labour power and a set of relationships existing within a society⁴. (Rima, 2001) It gives power to the bourgeoisie class. Importance of mode of production for bourgeoisie class is illustrated by Marx and Engels: “The bourgeoisie cannot exist without constantly revolutionising the instruments of production, and thereby the relations of production, and with them the whole relations of society. Conservation of the old modes of production in unaltered form, was on the contrary, the first condition of existence for all earlier industrial classes. Constant revolutionising of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones.” (Marx & Engels, 1848) Social change, in his opinion, is also dependent on the mode of production in use, as he stated in his book *A contribution to the critique of political economy*: “The mode of production of material life conditions the general process of social, political and intellectual life. It is not the consciousness of men that determines their existence, but their social existence that determines their consciousness. At a certain stage of development, the material productive forces of society come into conflict with the existing relations of production or—this merely expresses the same thing in legal terms—with the property relations within the framework of which they have operated hitherto. From forms of development of the productive forces these relations turn into their fetters. Then begins an era of social revolution. The changes in the economic foundation lead sooner or later to the transformation of the whole immense superstructure.” (Marx, 1859). In the last passage, Marx indicates that technological developments in terms of mode of production can determine the societal life and culture. This idea is widely known as technological determinism⁵.

Marx’s idea of commodity, value and circulation of commodities

Marx began the first part of his *Capital* with very lengthy description on what constitutes the commodity. Commodity is, according to Marx, “an object outside us, a thing by its properties satisfies human wants of some sort or another” (Marx, 1887, p. 27). If the purpose of production of goods and services is their exchange, then those goods and services can be regarded as commodities.⁶ (Kliman, 2007) There are two types of values⁷ that a commodity can possess: use value and exchange value. The concepts of use and exchange values were first introduced by Aristotle, but Marx believed that Aristotle failed to attribute the value of the

⁴ These social relationships can exist among capitalists, and between capitalist and workers. Their relationship emerges from institutions (e.g. socioeconomic, political, etc.) that exist in a society.

⁵ Technological determinism is widely argued as a concept.

⁶ Marx distinguishes between commodities and non-commodities.

⁷ Value exists only if labour is exchanged through the competitive market.

commodity to the right factor. Use value is defined by the utility it brings and “become a reality only by use or consumption” (Marx, 1887, p. 27). Marx argued that the person’s own commodity (the one he/she owns or produces) essentially does not bring him/her any use value and hence, it becomes subject of exchange. Furthermore, Marx also explained that an object can have use value without having value if no labour was used in its production.

Exchange value constitutes a more complex matter—it is expressed quantitatively⁸ which is subject to changes through different time periods and place. It represents the ratio of amount of commodities in use of one kind being exchanged for commodities in use of another kind. Exchange value is very important, as Marx states that it: “is the only form in which the value of commodities can manifest itself or be expressed”. (Marx, 1887, p. 28) In its essence, exchange value also represents a social relationship—relationship between producers of different commodities. A necessary condition for the existence of exchange value is existence of the use value of a commodity.

Marx found an inspiration in Ricardo’s labour theory of value that suggests that the value of one commodity is determined by the scarcity of that commodity and the amount of labour engaged in its production. Following the reasoning of Ricardo, Marx believed that value of commodity⁹ is dependent upon socially necessary labour time, or average amount of time that is needed to produce certain commodity. In case when a certain, less skilled worker A requires more time than the worker B to produce the same commodity, the commodity of the first worker, worker A, does not have greater value. The value of an hour socially necessary labour time in both cases is the same. (Kliman, 2007) Value of commodity can be changed by changes in productivity which is affected by numerous factors, many of which are endogenous to individual worker or even factory: “average amount of skill of the workmen, the state of science, and the degree of its practical application, the social organisation of production, the extent and capabilities of the means of production, and by physical conditions” (Marx, 1887, p. 29).

There are two forms of expressing the value, according to Marx, and those are: relative and equivalent form. Relative form¹⁰ means expression of value of one commodity in terms of use value of another commodity. Equivalent form implies that that commodity can be directly exchanged with other commodities. What is the universal form of value is value itself and as such, it can be expressed by any commodity that becomes money commodity¹¹. Volume I of *Capital* described money as: “a crystal formed of necessity during the exchanges, whereby

⁸ As opposed to expression in qualitative terms, given by its use value.

⁹ Theory is applied only to commodities, according to the above-mentioned definition.

¹⁰ Marx also mentioned expanded relative form of value meaning that one commodity is expressed in terms of many other, different commodities.

¹¹ For example, if the commodity of expression is gold, gold becomes money commodity.

different products of labour are practically equated to one another and thus by practice converted into commodities”. (Marx, 1887, p. 61) Marx introduced the concept of fetishism, and while presenting it quite abstractly, explains the concept as imposed social relationship to the producers in relation to the comprehensive product of their labour which is not seen as the relationship between individual producers but as a relationship between the results of their labour.

“The circulation of commodities is starting-point of capital. The production of commodities, their circulation, and the more developed form of their circulation called commerce, these form the historical ground-work from which it [capital] rises.” (Marx, 1887, p. 104) There are two ways in which circulation of commodities (Marx, 1887, pp. 104-110) can occur:

1. C-M-C, where commodity is transformed into money and the money is transformed back to commodity (in the simplest terms, process of selling and then buying). The process has creation of use value as an ultimate goal.
2. M-C-M, where money is transformed into commodity that is transformed back to money (where the whole point of the conversion can be understood as buying a commodity in order to make a sale). The goal of the process is creation of exchange value.

The second process of circulation of commodities represents transformation of money to capital. The exchange is pointless if the amount of money is constant. (Hardach et al., 1978) Therefore, Marx assumed that the exact form of the second circulation is M-C-M' where

$$M' = M + DM \quad (1)$$

where DM is incremental value obtained from buying a commodity and selling it later. Marx's explanation of this incremental value goes as follows: “This increment or excess over the original value I call “surplus-value”. The value originally advanced, therefore, not only remains intact while in circulation, but adds to itself a surplus-value or expands itself. It is this movement that converts it into capital.” (Marx, 1887, p. 106) This process can be infinite because capital continuously accumulates itself and produces surplus value.

Production process: surplus value creation and labour exploitation

It is universally acknowledged that the basic goal of any company is profit maximisation. Marx described this as a wish of capitalist to create the surplus value in a production process: “Our capitalist has two objects in view: in the first place, he wants to produce a use-value that has a

value in exchange, that is to say, an article destined to be sold, a commodity; and secondly, he desires to produce a commodity whose value should be greater than sum of the values of the commodities used in its production, that is, of the means of production and the labour-power, that he purchased with his good money in open market. His aim is to produce not only a use-value, but a commodity also; not only use-value, but value; not only value, but at the same time surplus-value.” (Marx, 1887, p. 131) Qualifications of labour used in production process are not important for the process of creating surplus value. Allocation of labour to the production process of a commodity depends on social need for that particular commodity. (Kliman, 2007) Value of each commodity¹², according to Marx, can be split into three parts: (1) constant capital (c), (2) variable capital (v), and (3) surplus value (s), which can be expressed as:

$$C = c + v + s \quad (2)$$

Constant capital is related to the capital embodied in the means of production; variable capital is considered to be labour (i.e. wages paid to labourers), but labour which capitalist pay for the participation in value-creation process of production; while surplus value is the component of labour that is consumed, but is not paid for. In the Marxian spirit, it is believed that labour is at the heart of creating surplus value. Capitalists compensate labour for their labour power, which can be understood as the ability to work, but, however, this tends to be lower than the value created by labour. Creation of the surplus value can be represent by the simple formula:

$$s' = s / v \quad (3)$$

where s is surplus value itself and v is the variable capital outlay. Three factors that influence the rate of creation of surplus value/rate of exploitation (s') are: number of working hours in a day, productivity of labour and quantity of commodities that constitute the real wage of the labourer. (Rima, 2001, p. 232) As we know, technological progress increases the productivity of the workers, but Marx believed that it also increases their exploitation (increasing productivity as a result of technological progress will be discussed more in depth in the following section). In the part of *Economic and philosophical manuscripts*, Marx claimed that workers themselves are becoming commodities: “The worker becomes all the poorer the more wealth he produces, the more his production increases in power and size. The worker becomes an ever cheaper commodity the

¹² Commodity value can also be expressed by adding following two factors: (1) value of means of production used in production that is transferred into the commodity, and (2) additional value added created by labourers. (Kliman, 2007)

more commodities he creates. The devaluation of the world of men is in direct proportion to the increasing value of the world of things. Labour produces not only commodities; it produces itself and the worker as a commodity—and this at the same rate at which it produces commodities in general.” (Marx, 1844) Workers are alienated from the products of their own labour and as the product of worker becomes more sophisticated, the life of worker becomes more complicated (and, as Marx describes it, the worker becomes more barbarian). Estranging labour from his/her work will eventually lead to estranging a person from him/herself. Marx concludes that estrangement of labour is the consequence of the private property and wages are remuneration for the estrangement. Even before Marx, alienation of labour was recognised by Adam Smith, however, Smith believed, that while this is certainly one of the disadvantages of capitalistic system, this is not an indication of the whole system being flawed.

Another instance where Marx and Engels very well illustrated their attitude towards the fairness of treatments of workers, is in the final section of *Communist Manifesto*, where they stated: “Let the ruling class tremble at a Communistic revolution. The proletarians have nothing to lose but their chains. They have a world to win. Working men of all countries, unite!” (Marx and Engels, 1848) Marx often wrote about exploitation of labour and the revolution in which proletariat would win over bourgeois. Communist society, that he believed will ultimately prevail, would significantly improve the conditions for the members of proletariat, as the proletarian revolution will mark the end of capitalism and beginning of transition of period. However, in his works, Marx does not describe how the revolution will occur or how the communist society will be organised. However, he did believe in the necessity of political transition period (Chattopadhyay, 1992). Hence, as the world has seen the failures of systems that were called communist, many argue that Marx was better at recognising of all the positive and negative sides of capitalism. On the other hand, the resemblance of Marx’s works and these systems in practice is largely arguable. (Marx after communism, 2002)

Joan Robinson criticised Marx’s class structure of society and descriptions of exploitation of labour believing that capitalism does involve consensus of interests of both workers and capitalists (Wolf, 2011). On the other hand, some of the economist, e.g. Coates, believe that the class structure still exist in the society and that globalisation made it even more apparent (Coates, 2000).

The law of the tendency of the rate of profit to fall

One of the most important laws proposed by Marx and presented in the third volume of *Capital* is the law of the tendency of the rate of profit to fall. Profit, according to Marx, is the additional value created through the process of production (i.e. additional value at the end of the

production process compared to the beginning). Rate of profit is represented as the ratio of between surplus value and total amount of capital invested in production (where total amount of capital is comprised of both variable and constant capital). Profit is positively related to the rate of exploitation of labour, while it is negatively related to the proportions of variable and constant capital in total capital (organic composition of capital). Taking into account labour theory of value, even if the companies or industries have the same rates of surplus value, their profit rates can differ¹³. If this is the case, capital is likely to be shifted to more profitable industries. (Kliman, 2007)

According to the Marx's assumptions from *Capital I*, equalisation of the rate of surplus value occurs among sectors. In *Capital III*, Marx believed that it is the rate of profit that has a tendency towards equalisation. Advancement of technology leads to the increases in productivity. However, by considering the principles of labour theory of value and the fact that with increased productivity, less time is required to produce the same commodity, value of a commodity declines. If one firm in a single industry does introduce innovative production method that increases its productivity, its initial profits do increase. However, considering that competition follows the lead, costs of production fall overall in the industry and so does value. Although it might follow from the stated, Marx did not believe that competition caused the rates of profit to fall. By taking into consideration Marx's assumption on tendency of equalisation of rates of profit, general rate of profit across different industries falls. (Mattick, 1969; Kliman, 2007)

When introducing the law, Marx stated: "If it is further assumed that this gradual change in the composition of capital is not confined only to individual spheres of production, so that it involves changes in the average organic composition of the total capital of a certain society, then the gradual growth of constant capital in relation to variable capital must necessarily lead to gradual fall of the general rate of profit, so long as the rate of surplus-value, or the intensity of exploitation of labour by capital, remain the same." (Marx, 1894, p. 153) Organic composition of capital mentioned by Marx in the passage above is what would be today assumed as capital intensity and it is ratio of constant capital used in the production process to total capital used in process, where total capital is comprised of constant and variable capital. (Rima, 2001) Marx believed that, at the time, he was witnessing the tendency of declining variable capital in contrast with constant capital, however, that did not, in any way, lead to lower exploitation of labour. The law itself should not be regarded purely in absolute terms, but should be rather seen as the progressive tendency of declining profit. The law does not imply that rates of profit will fall indefinitely or constantly.

¹³ Marx spoke about the concept of equal rates of profit among industries, which he called average profit. In that case, price of production would be actual market price.

The law attracted large degree of criticism. One theorem that is believed to refute the law is Okishio theorem. Furthermore, recent researches widely criticise Marx's law on the tendency of the rate of profit to fall, although this law was accepted as such in the past. Allen (2009), on the data for Britain, showed that even the expansion of capital was constant, the rates of profit were generally low in the eighteenth century, increased by the middle of nineteenth century and were characterised by stability until the beginning of the World War I. Acemoglu and Robinson (2015), in their article *The rise and decline of general laws of capitalism*, claim that the reason for failure of Marx's laws lies in the fact that he did not account for endogenous technological change nor included the influence of the political or economic institutions on shaping the economy.

Thoughts on the possibility of crisis to emerge

Marx opposed the views of some of the classical economists, e.g. Ricardo, on the topic of possibility of crises to occur. (Hardach et al., 1978) While both Ricardo and Smith acknowledged the possibility of crises to occur, Marx believed that crises are not only possible, but that it is impossible to avoid the crises in the long-run. Furthermore, Marx assumed that crises do not last permanently.

Marx believed that Say's law that supply creating its own demand does not hold in the modern economy and there is a constant tendency of the economy to move towards disequilibrium. However, his rejection of the notion of Say's law can be largely disputed by looking at so-called reproduction schemes¹⁴ that Marx established, and where reproduction equilibrium is reached when supply and demand of all goods are equal. (Screpanti & Zamagi, 2005)

Marx offered few views on potential causes of the emergence of crisis. Crises will keep increasing in their severity and will ultimately lead to the fall of capitalism. Furthermore, Marx believed that capitalistic system will constantly create crises considering that the main goal of production for capitalists is not satisfaction of social needs, but the accumulation of capital. In that sense, the emergence of crisis is related to the tendency of rate of profit to fall. Overproduction, without regards to demand, causes excess supply of goods and leads to over accumulation of capital. Overaccumulation of capital leads to increased demand for labour which further causes wages to rise. Increased wages lead to the falling profit, which further triggers lower investments¹⁵ in the economy. Hence, overaccumulation of capital causes crisis. Second explanation states that changes in consumption patterns have an effect on crises. The constraints on consumption emerge from unemployment and wage levels on the side of the

¹⁴ Reproduction schemes determined the interdependencies between sectors in the economy in a way that they analyse amount of inputs from one sector needed for the production in another sector.

¹⁵ In this case, capitalists tend to hoard profits that they earned.

workers; while on the side of capitalists, due to their wish to expand their already existing capital¹⁶. In the volume III of *Capital*, he states: “The ultimate reason for all real crises always remain the poverty and restricted consumption of the masses as opposed to the drive of capitalist production to develop the productive forces as though only the absolute consuming power of society constituted their limit.” (Marx, 1894, p. 347) Finally, his third explanation is reliant on the existence of imperfect information in the markets.

Concentration of capital and decreasing competition

With the growth of fixed amount of constant capital and constant capital compared to variable capital in general, centralisation of capital occurs, meaning that the existing amount of capital is redistributed to fewer capitalists. Marx believed that the intensity of the struggle between capitalists is similar to the intensity of the struggle between capitalists and workers. Centralisation and concentration of capital comes from the idea that that the strongest players on the market will survive and win and drive the smaller ones out of businesses. As larger entities can achieve economies of scale easier and will often compete on the basis of price, smaller production entities will not be able to stay in the business. Marx pointed out that larger capital accumulation will lead to large industry concentration. In the volume I of *Capital*, he wrote: “Every individual capital is a larger or smaller concentration of means of production, with a corresponding command over a larger or smaller labour-army. Every accumulation becomes the means of new accumulation. With the increasing mass of wealth which functions as capital, accumulation increases the concentration of that wealth in the hands of individual capitalists, and thereby widens the basis of production on a large scale and of the specific methods of capitalist production.” (Marx, 1887, p. 440) According to Marx, final stages of capitalism can end in unification of different companies and formation of cartels, occurrence of mergers, etc. (Rima, 2001) Finally, these companies could turn into monopolies. Due to many detrimental consequences that monopolies might bring, Marx predicts the social revolution led by proletariat in which capitalism will be overthrown and replaced by communism. One of the Marx’s critiques of early socialists is that they either predicted better status for all classes or very peaceful revolutions. Marx himself, on the other hand, believed that revolution that will lead to change from capitalism to communism cannot be non violent.

Evidence for this prediction can be found in so-called the “great” merger movement that took place in United States of America in the period between 1895 and 1904 and brought changes in industrial structure and large industry concentrations. (Smythe, 2001) Numerous laws enforced

¹⁶ Which will further worsen the situation of workers, as explained earlier.

by state made this impossible (or harder) to occur at later points of time, however, we can argue that some industries are becoming more and more concentrated today.

Wages

According to Marx, workers always produce more value than it is compensated by their wages. Demand for labour is dependent upon the rate of industrialisation. With increased industrialisation, the demand for labour will be lower and the so-called “reserve army”¹⁷ will increase. The existence of “reserve army” does not have positive impact on the growth of wages. On the other hand, industrialisation raises productivity of labour. Workers are organised into unions, which prevents permanent decrease of real wages and which strive to influence the labour supply. Marx argues that labour unions are not strong enough to fight the decreasing share of wages or exploitation of labour. Decreasing share of wages means that workers are becoming relatively poorer compared to capitalists and this causes general dissatisfaction of the working class. In the volume I of *Capital*, Marx noted: “But hand-in-hand, with the increasing productivity of labour, goes, as we have seen, the cheapening of the labourer, therefore a higher rate of surplus-value, even when the real wages are rising. The latter never rise proportionally to the productive power of labour. The same value in variable capital therefore sets in movement more labour-power, and, therefore, more labour.” (Marx, 1887, p. 423) In his writings, Marx stated, that in communism, every labourer should contribute to the society according to his/her abilities, while he/she will be rewarded according their needs.

What Marx believed will happen to wages is the subject of dispute: some believe that he believed that wages under capitalism are stagnant, while other group believes that Marx simply meant that the share of national income devoted to labour force will decline in the years to come. (Acemoglu & Robinson, 2015) If we take into account one of Kaldor’s stylised facts¹⁸, we can reject the latter interpretation of Marx’s reasoning on wages. Acemoglu and Robinson (2015) quoted several studies that offer evidences that share of national income devoted to labour did not fall. However, by looking at the recent data, we can notice that Marx’s prediction might hold true. OECD reports that labour income share was equal to 66 % in the 1990s, while it experienced about 4 percentage points drop in 2000s. The estimates are that technology brought to about 80 % decline in labour income share in OECD countries. (Labour pains, 2013)

¹⁷ Term invented by Engels and which represents the unemployed in the capitalist society.

¹⁸ Kaldor’s facts set labour income share fixed at 2/3 of total national income.

Conclusion

Karl Marx, German philosopher, wrote some of his most influential works in the field of economics and is considered to be a father of modern socialism. He was proponent of scientific socialism believing that many of early socialists' ideas were utopian. His ideas, quite controversial at the time, opposed many of beliefs that were present in the nineteenth century society. On the other hand, Marx and his works were strongly influenced by many philosophers (e.g. Hegel), classical economists (e.g. Ricardo) and early socialists. The central part of Marx works is devoted to class struggle—differences in positions of bourgeois and proletariat classes in the society. Marx believed that bourgeois class was getting rich at the expense of members of proletariat who are main creators of value in the society. He believed that the workers are being deeply exploited. He wrote in this famous *Communist Manifesto*: “All that is solid melts into air.” (Marx and Engels, 1848). This implies that Marx believed in the temporary nature of everything in the world, including bourgeois class being the ruling class. Large inequalities are present and persistent in today's society, however, they are probably not as dramatic as Marx have described them. Marx believed that changes within the society will not follow evolutionary track, but will rather result in revolution. Revolution of proletariat is, according to Marx, destined to overthrow capitalism. He believed that the change will first occur in most advanced, capitalist countries. (Marx after communism, 2002) In communist society, which can be sometimes seen as fairly utopian, everybody would contribute to the society's development according to their abilities, while they will be rewarded according to their needs. By looking at historical evidences, countries that declared themselves as communist, failed. On the other hand, it is fairly disputable to what extent Marx works (general laws) were really implemented in those societies or whether those countries could be regarded as very advanced at the time when change happened. Another cause of failure of these systems was that they rarely progressed from some developed stage of capitalism to communism, as it should have happened according to Marx. (Marx after communism, 2002) Roemer (1994) explained the reasons for the failure of Soviet-type economies: “(1) the allocation of most goods by an administrative apparatus under which producers were not forced to compete with each other, (2) direct control of firms by political units, and (3) noncompetitive, nondemocratic politics”. Marx's ideal society, although widely mentioned, is not really well described by Marx himself—his best selling work *Communist Manifesto* does not really offer any description on how this system would function in practice.

Despite the points where Marx failed, and often those were the points of most importance for Marx himself, he continuously has number of followers and at the times of crisis, it appears that

this number even grows. (Jeffries, 2012; Marx after communism, 2002) Labour theory of value where the value of the products is attributed to labour does not really hold true. The rate of declining profit law also does not hold true. Through the history, we did not witness stability and consistency of evidences supporting Marx's argument on declining competition that occurs due to centralisation or concentration of capital, or his argument about wages. Sometimes, Marx even correctly foreseen the effect, but was wrong about either its causes and consequences or both.

Many believe that Marx's most important contribution was not in the revolutionarily of his ideas or their correctness—it is in the analysis of capitalism as the system and implications of such system on the whole society. His analyses were often very deep and extensive (e.g. Marx's analysis on types of value). Despite whether Marx was right or wrong, he had left and important trace in the history of economic thought and it cannot be argued that his works will still be discussed in the years to come.

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