Marx: Exploitation & Commodification

Marx's Theory of Exploitation (a review)

Fundamental Question of Classical Political Economy: What determines something's *price*?

○ *Natural Price:* "the central price(s), to which the prices of all commodities are continually gravitating." [Smith, I.7]

○ *Market Price:* the prices at which, on particular occasions, commodities actually exchange.

Marx's Puzzle: Why, in general, are there *profits* at all?

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MODEL OF ECONOMIC SYSTEM*

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	Inputs					**Outputs**
L_A	A_A	B_A	C_A	...	yields:	O_A
L_B	A_B	B_B	C_B	...	yields:	O_B
L_C	A_C	B_C	C_C	...	yields:	O_C
⋮	⋮	⋮	⋮	⋮		⋮
L_n	A_n	B_n	C_n	...	yields:	O_n

Marx's Main Point: The Capitalist can earn a *profit* only if there exists a commodity whose *use value* has the property of being *a source of value* Is there such a commodity? Marx thought, "yes," it's *Labor Power.*

○ *Labor Power.* The ability to labor. The worker sells his or her ability to labor for a period of time.

○ *Labor Value of Labor Power.* The labor value of the ability to labor is the amount of laboring required directly and indirectly to produce those commodities (food, shelter, clothing, etc.) necessary for restoring that used up ability to labor.

If the economy is capable of producing Surplus Value, then *the labor value of a worker's labor power* must be strictly less than *the number of hours of labor extracted from the worker during that time period.*

> **Marxian Exploitation:** If the Capitalists earn a profit, then the Working Class is *exploited: **surplus labor value** has been extracted from them in the form of hours of laboring over and above what is socially necessary to reproduce their ability to labor for another day.

The Three Central Issues of Classical Political Economy:

1. The nature of *real wealth.*

2. The causes of economic *growth.*

3. The determinants of the *distribution* of real wealth.

In order to handle these issues, we need a theory of prices.

*Suppose the economy (1) consists of n one-product industries with one technique of production for each commodity; (2) a single quality of labor; and (3) assume (for simplicity) that all commodities are themselves directly or indirectly required for the production of all other commodities.

Symbol	Explanation
I_J	The amount of commodity I used in producing commodity J.
O_I	The output of commodity I in the industry producing commodity I.
L_I	The quantity of labor directly required in the production of commodity I.

Assume that $O_I \geq (I_A + I_B + \cdots + I_n)$, for all I. Otherwise, the economy is not sustainable.

In other words, in each line of production, the capitalist will complete a cycle of production with goods embodying more hours of labor than were embodied in the inputs used up to produce the output.

Proof of Marxian Exploitation. Look at MODEL OF ECONOMIC SYSTEM, which represents the inputs and outputs of each industry in the economy during an economic cycle. We appeal to **The Labor Theory of Value** to place a value, in terms of labor hours, on each commodity.

$$L_A + A_A V_A + B_A V_B + \cdots + N_A V_N = O_A V_A$$
$$L_B + A_B V_A + B_B V_B + \cdots + N_B V_N = O_B V_B$$
$$\vdots$$
$$L_N + A_N V_A + B_N V_B + \cdots + N_N V_N = O_N V_N$$

The value of Labor Power is derived from the real wage with the following equation:

$$A_W V_A + B_W V_B + \cdots + N_W V_N = LV \qquad (1)$$

Summing up the system of equations, and equation (1), and simplifying by substituting $A = A_A + A_B + \cdots + A_N + A_W$, etc., we get:

$$L + AV_A + \cdots + NV_N = O_A V_A + \cdots + O_N V_N + LV$$
$$L(1 - V) = V_A(O_A - A) + \cdots + V_N(O_N - N)$$

Theorem of Surplus Labor Value: The surplus labor value extracted from each unit of labor input multiplied by the total number of units of labor employed in the economy *is equal to* the labor value of the physical surplus produced in the economy.

$$L(1 - V) = V_A(O_A - A) + \cdots + V_N(O_N - N)$$

If the labor value of the physical surplus is positive (i.e., if profit is generated), then $L(1 - V) > 0$. And, so, $1 > V$, which means that the amount of labor socially necessary to produce one unit of labor is less than the amount of value created by that one unit of labor.

The theorem derives from two assumptions: (1) **The Labor Theory of Value**, and (2) that Labor Power can be distinguished from the activity of laboring.

Marx's Central Problem with Capitalism: The capacity to labor has been commodified.

Symbol	Explanation
V	Labor value of one unit of Labor Power.
V_J	Labor value of commodity J.
L	Total amount of labor employed in the economy.
A	Total amount of commodity A used up as input in the economy.
O_J	The amount of commodity J produced as output in the economy.

So, $\displaystyle\sum_{J \in \{A,B,\dots,N\}} (O_J - J)$ is the amount of physical surplus produced in the given cycle of the economy.

And, $\displaystyle\sum_{J \in \{A,B,\dots,N\}} V_J(O_J - J)$ is the labor value of the physical surplus produced.

Upshot of the Theorem: the total number of hours of labor in a productive economy (i.e., one that generates profit) will be greater than the total number of labor hours socially necessary to produce that number of labor hours.

In other words, the Working Class will labor for more hours than would be necessary to sustain them. Because the Capitalists appropriate the Surplus Value in the form of profits, the Working Class is thereby exploited: they are creating more value than they are receiving.

Capitalism and the Creation of False Needs

Consider the following argument in favor of Capitalism.

CAPITALISM SERVES NEEDS

P1 Capitalist firms survive only if they make money.

P2 Capitalist firms make money only if they prevail in competition against other capitalist firms.

P3 Capitalist firms prevail in competition against other capitalist firms only if they operate efficiently (e.g., they successfully seize every opportunity to use resources well).

P4 If a capitalist firm operates efficiently, then it will do as well as possible in serving people's needs.

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C The only capitalist firms that survive are those that do as well as possible at serving people's needs.

Conclusion: Capitalism is just because even the worst-off under such a system are better-off than they wold be under any other system.

This doesn't directly follow from the argument given above, but you can see how it would go.

Question: Is it true that if capitalist firms operate efficiently, then they will do as well as possible in serving people's needs?

○ *Operates Efficiently?* A capitalist firm operates efficiently if it uses its resources well in producing the right amount of the kinds of products that consumers are willing to buy.

Firms do better the more efficiently they produce those goods and services that consumers are willing to buy.

○ *Serves People's Needs?* If people are willing to buy something, then they must want it or need it. So, by providing consumers with those things they are willing to buy, their needs are served.

One way to efficiently produce those goods and services consumers are willing to buy is to (1) figure out which goods and services consumers are willing to buy, and then (2) efficiently produce those goods and services.

The Problem of *False Needs:* false needs are "those which are superimposed upon the individual by particular social interests in his repression: the needs which perpetuate toil, aggressiveness, misery, and injustice." (5)

Another way to efficiently produce those goods and services consumers are willing to buy is to (1) *manufacture*, through advertising, etc., "false needs" in the consumers for (2) those goods and services you efficiently produce.

Capitalism is biased in favor of this second option.

Commodification

The Invisible Hand of the free market will seek profit wherever profit can be found, leading to ever increasing *commodification.*

Commodities are goods and services that are treated in accordance with the norms of the market.

Are there some things that should not, under any circumstances, be for sale? What kinds of things? And why?