



THE CONCISE ENCYCLOPEDIA OF ECONOMICS

Marxism

by David L. Prychitko

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More than a century after his death, [KARL MARX](#) remains one of the most controversial figures in the Western world. His relentless criticism of [CAPITALISM](#) and his corresponding promise of an inevitable, harmonious socialist future inspired a revolution of global proportions. It seemed that—with the Bolshevik revolution in Russia and the spread of [COMMUNISM](#) throughout Eastern Europe—the Marxist dream had firmly taken root during the first half of the twentieth century.

That dream collapsed before the century had ended. The people of Poland, Hungary, Czechoslovakia, East Germany, Romania, Yugoslavia, Bulgaria, Albania, and the USSR rejected Marxist ideology and entered a remarkable transition toward private [PROPERTY RIGHTS](#) and the market-exchange system, one that is still occurring. Which aspects of Marxism created such a powerful revolutionary force? And what explains its eventual demise? The answers lie in some general characteristics of Marxism—its economics, social theory, and overall vision.

Labor Theory of Value

The labor theory of value is a major pillar of traditional Marxian economics, which is evident in Marx's masterpiece, *Capital* (1867). The theory's basic claim is simple: the value of a commodity can be objectively measured by the average number of labor hours required to produce that commodity.

If a pair of shoes usually takes twice as long to produce as a pair of pants, for example, then shoes are twice as valuable as pants. In the long run, the competitive price of shoes will be twice the price of pants, *regardless of the value of the physical inputs*.

Although the labor theory of value is demonstrably false, it prevailed among classical economists through the midnineteenth century. [ADAM SMITH](#), for instance, flirted with a labor theory of value in his classic defense of capitalism, *The Wealth of Nations* (1776), and [DAVID](#)

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RICARDO later systematized it in his *Principles of Political Economy* (1817), a text studied by generations of free-market economists.

So the labor theory of value was not unique to Marxism. Marx did attempt, however, to turn the theory against the champions of capitalism, pushing the theory in a direction that most classical economists hesitated to follow. Marx argued that the theory could explain the value of all commodities, including the commodity that workers sell to capitalists for a wage. Marx called this commodity “labor power.”

Labor power is the worker’s capacity to produce goods and services. Marx, using principles of classical economics, explained that the value of labor power must depend on the number of labor hours it takes society, on average, to feed, clothe, and shelter a worker so that he or she has the capacity to work. In other words, the long-run wage workers receive will depend on the number of labor hours it takes to produce a person who is fit for work. Suppose five hours of labor are needed to feed, clothe, and protect a worker each day so that the worker is fit for work the following morning. If one labor hour equaled one dollar, the correct wage would be five dollars per day.

Marx then asked an apparently devastating question: if all goods and services in a capitalist society tend to be sold at prices (and wages) that reflect their true value (measured by labor hours), how can it be that capitalists enjoy **PROFITS**—even if only in the short run? How do capitalists manage to squeeze out a residual between total revenue and total costs?

Capitalists, Marx answered, must enjoy a privileged and powerful position as owners of the means of production and are therefore able to ruthlessly exploit workers. Although the capitalist pays workers the correct wage, somehow—Marx was terribly vague here—the capitalist makes workers work more hours than are needed to create the worker’s labor power. If the capitalist pays each worker five dollars per day, he can require workers to work, say, twelve hours per day—a not uncommon workday during Marx’s time. Hence, if one labor hour equals one dollar, workers produce twelve dollars’ worth of products for the capitalist but are paid only five. The bottom line: capitalists extract “surplus value” from the workers and enjoy monetary profits.

Although Marx tried to use the labor theory of value against capitalism by stretching it to its limits, he unintentionally demonstrated the weakness of the theory’s logic and underlying assumptions. Marx was

correct when he claimed that classical economists failed to adequately explain capitalist profits. But Marx failed as well. By the late nineteenth century, the economics profession rejected the labor theory of value. Mainstream economists now believe that capitalists do not earn profits by exploiting workers (see [PROFITS](#)). Instead, they believe, entrepreneurial capitalists earn profits by forgoing current consumption, by taking risks, and by organizing production.

Alienation

There is more to Marxism, however, than the labor theory of value and Marx's criticism of profit seeking. Marx wove economics and philosophy together to construct a grand theory of human history and social change. His concept of alienation, for example, first articulated in his *Economic and Philosophic Manuscripts of 1844*, plays a key role in his criticism of capitalism.

Marx believed that people, by nature, are free, creative beings who have the potential to totally transform the world. But he observed that the modern, technologically developed world is apparently beyond our full control. Marx condemned the [FREE MARKET](#), for instance, as being "anarchic," or ungoverned. He maintained that the way the market economy is coordinated—through the spontaneous purchase and sale of private property dictated by the laws of [SUPPLY](#) and [DEMAND](#)—blocks our ability to take control of our individual and collective destinies.

Marx condemned capitalism as a system that alienates the masses. His reasoning was as follows: although workers produce things for the market, market forces, not workers, control things. People are required to work for capitalists who have full control over the means of production and maintain power in the workplace. Work, he said, becomes degrading, monotonous, and suitable for machines rather than for free, creative people. In the end, people themselves become objects—robotlike mechanisms that have lost touch with human nature, that make decisions based on cold profit-and-loss considerations, with little concern for human worth and need. Marx concluded that capitalism blocks our capacity to create our own humane society.

Marx's notion of alienation rests on a crucial but shaky assumption. It assumes that people can successfully abolish an advanced, market-based society and replace it with a democratic, comprehensively planned society. Marx claimed that we are alienated not only because many of us toil in tedious, perhaps even degrading, jobs, or because

by competing in the marketplace we tend to place profitability above human need. The issue is not about toil versus happiness. We are alienated, he maintained, because we have not yet designed a society that is fully planned and controlled, a society without [COMPETITION](#), profits and losses, money, private property, and so on—a society that, Marx predicted, must inevitably appear as the world advances through history.

Here is the greatest problem with Marx's theory of alienation: even with the latest developments in computer technology, we cannot create a comprehensively planned system that puts an end to scarcity and uncertainty. But for Marxists to speak of alienation under capitalism, they must *assume* that a successfully planned world is possible. That is, Marx believed that under capitalism we are "alienated" or "separated" from our potential to creatively plan and control our collective fate. But if comprehensive socialist planning fails to work in practice—if, indeed, it is an impossibility, as we have learned from [MISES](#) and Hayek—then we cannot be "alienated" in Marx's use of the term. We cannot really be "separated" from our "potential" to comprehensively plan the economy if comprehensive planning is impossible.

Scientific Socialism

A staunch antiutopian, Marx claimed that his criticism of capitalism was based on the latest developments in science. He called his theory "scientific socialism" to clearly distinguish his approach from that of other socialists (Henri de Saint-Simon and Charles Fourier, for instance), who seemed more content to dream about some future ideal society without comprehending how existing society really worked (see [SOCIALISM](#)).

Marx's scientific socialism combined his economics and philosophy—including his theory of value and the concept of alienation—to demonstrate that throughout the course of human history, a profound struggle has developed between the "haves" and the "have-nots." Specifically, Marx claimed that capitalism has ruptured into a war between two classes: the bourgeoisie (the capitalist class that owns the means of production) and the proletariat (the working class, which is at the mercy of the capitalists). Marx claimed that he had discovered the laws of history, laws that expose the contradictions of capitalism and the necessity of the class struggle.

Marx predicted that competition among capitalists would grow so fierce that, eventually, most capitalists would go bankrupt, leaving only a handful of monopolists controlling nearly all production. This, to Marx, was one of

the contradictions of capitalism: competition, instead of creating better products at lower prices for consumers, in the long run creates **MONOPOLY**, which exploits workers and consumers alike. What happens to the former capitalists? They fall into the ranks of the proletariat, creating a greater supply of labor, a fall in wages, and what Marx called a growing reserve army of the unemployed. Also, thought Marx, the anarchic, unplanned nature of a complex market economy is prone to economic crises as supplies and demands become mismatched, causing huge swings in business activity and, ultimately, severe economic depressions.

The more advanced the capitalist economy becomes, Marx argued, the greater these contradictions and conflicts. The more capitalism creates wealth, the more it sows the seeds of its own destruction. Ultimately, the proletariat will realize that it has the collective power to overthrow the few remaining capitalists and, with them, the whole system.

The entire capitalist system—with its private property, money, market exchange, profit-and-loss accounting, labor markets, and so on—must be abolished, thought Marx, and replaced with a fully planned, self-managed economic system that brings a complete and utter end to exploitation and alienation. A socialist revolution, argued Marx, is inevitable.

An Appraisal

Marx was surely a profound thinker who won legions of supporters around the world. But his predictions have not withstood the test of time. Although capitalist markets have changed over the past 150 years, competition has not devolved into monopoly. Real wages have risen and profit rates have not declined. Nor has a reserve army of the unemployed developed. We do have bouts with the business cycle, but more and more economists believe that significant recessions and depressions may be more the unintended result of state intervention (through **MONETARY POLICY** carried out by central banks and government policies on **TAXATION** and spending) than an inherent feature of markets as such.

Socialist revolutions, to be sure, have occurred throughout the world, but never where Marx's theory had predicted—in the most advanced capitalist countries. On the contrary, socialism was forced on poor, so-called Third World countries. And those revolutions unwittingly condemned the masses to systemic poverty and political dictatorship. In practice, socialism absolutely failed to create the nonalienated, self-managed, and fully planned

society. It failed to emancipate the masses and instead crushed them with statism, domination, and the terrifying abuse of state power.

Nations that have allowed for private property rights and full-blown market exchange, in contrast to those “ democratic socialist republics” of the twentieth century, *have* enjoyed remarkable levels of long-term [ECONOMIC GROWTH](#). Free-market economies lift the masses from poverty and create the necessary institutional conditions for overall political freedom.

Marx just didn’t get it. Nor did his followers. Marx’s theory of value, his philosophy of human nature, and his claims to have uncovered the laws of history fit together to offer a complex and grand vision of a new world order. If the first three-quarters of the twentieth century provided a testing ground for that vision, the end of the century demonstrates its truly utopian nature and ultimate unworkability.

In the wake of communism’s collapse, traditional Marxism, which so many mainstream economists criticized relentlessly for decades, is now seriously questioned by a growing number of disillusioned radicals and former Marxists. Today there is a vibrant post-Marxism, associated with the efforts of those active in the scholarly journal *Rethinking Marxism*, for instance. Rather than trying to solve esoteric puzzles about the labor theory of value or offering new theoretical models of a planned economy, many of today’s sharpest post-Marxists appreciate marginal analysis and the knowledge and incentive problems of collective action. In this new literature, [FRIEDRICH HAYEK](#) seems to be getting a more positive reception than Marx himself. Exactly what will come out of these developments is hard to predict, but it is unlikely to look like the Marxism of the past.

About the Author

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The cuneiform inscription in the Liberty Fund logo is the earliest-known written appearance of the word "freedom" (amagi), or "liberty." It is taken from a clay document written about 2300 B.C. in the Sumerian city-state of Lagash.

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