UNIT 8: KARL MARX: THEORY OF SURPLUS VALUE

UNIT STRUCTURE

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8.1 LEARNING OBJECTIVES

After going through this unit, you will be able to–

- understand the essence of the theory of surplus value
- discuss why Karl Marx developed the theory of surplus value
- understand the meaning of Commodity
- explain the labour theory of value
- identify the differences between "Necessary labour time" and "Surplus Labour Time"
- discuss about "Absolute Surplus" and "Relative Surplus".

8.2 INTRODUCTION

Karl Marx's "Theory of Surplus value" is one of the most important contributions to the Marxist Economic thought. It has formed the foundation of Marx's notion of exploitation in capitalist economic system. The term surplus value is the translation of the German word "*Mehrwert*". In Marx's notion, the most vital feature of capitalism is accumulation of profit and maximising capital. Without profit, so to say, capitalists cannot survive. It means that in order to survive in the market, the capitalist must make profit.

The theory of Surplus Value was developed in response to the notion inherent in the question as to how the capitalists accumulate profit or where does the profit come from? The answer to this, for Marx, was "Surplus value". In the previous unit we have learnt about the Intellectual Orientation of Marx and his concept of Dialectical Materialism. We have also learnt about his theory of Class Conflict. In this Unit we shall learn about Marx's theory of Surplus Value where he discusses how Capitalists exploits the Working Class in order to generate Surplus Value.

8.3 USE VALUE AND EXCHANGE VALUE

Capitalist mode of production is a system of commodity production for sale, exchange, and profit rather than for immediate consumption of the producers. What is this "commodity"? It has more technical meaning; first of all commodity possesses two important aspects– *"use value"* and *"exchange value".* Use value is the qualitative aspects of the value that is associated with a particular commodity. It is the usefulness of the commodities that fulfils the human needs; for example, bread is used as food, and the pen is used for writing etc. Use-value is inextricably tied to physical palpable existence of the commodity. While on the other hand, exchange value, refers to the relative value or measurement of a commodity in relation to other commodities in an exchange situation. It allows determining what a commodity is worth in relation to another commodity, for example how many apples one might exchange for a given quantity of oranges. However, in the modern market system all sorts of relative value are expressed in the form of money. Therefore, in the modern market system, the exchange-value of a commodity usually means the monetary value. It is important to note that the measurement of the use value of different items is difficult, for instance, bread and pen have different use value. One can't use bread for writing and vice versa. But, it can be met through exchange; say, bread is exchanged for pen. Marx put much emphasis on "exchange value" and technically an object cannot be termed as a "commodity" until it is exchanged or without its "exchange value". For example, a person produces a product and the use value of the product may be quite useful for him but if

the product is not exchanged in the market, it is not a commodity in the technical sense of the term.

Now, most importantly, how is it possible to measure different commodities having different use-value on the same scale? Why a particular commodity is more expensive than the other? In order to determine, Marx asserts, the relative or "exchange value" (or monetary value) of different commodities, having different "use value", there must be some measurable aspect common to all such commodities. According to Marx, the common aspect of all such commodities is that they are the product of "human labour". This background provides the foundation for the discussion of "labour theory of value".

8.4 THE LABOUR THEORY OF VALUE

Marx refined Ricardo's labour theory of value and made some critical correction. To Marx, the value of a commodity is created by labour. Labour has the ability, called "labour-power", to add value in a commodity, whether use-value or exchange value. Marx was much interested in the "exchange value" of a commodity. But how is it determined. Let us begin with the simple assumption that value of a commodity is determined on the basis of the average labour and time required for its production. Under this condition it can be said that a commodity which requires more labour to be produced has more exchange value than a commodity which requires less labour. Thus, a car is more expensive than a bicycle. However, it is not that simple: Firstly, while producing a particular product, say a car, workers are engaged in different specific tasks for producing the parts, which makes the final product (car). Marx called such specific labour as 'concrete labour'. However, every concrete labour also produces value, since, when we look at a whole product; we see that every kind of concrete labour adds value to it. Secondly, while talking about the skill of the labourers, we find that their skill is not of the same order. Some are more skilled and some are less skilled. Thus, in a given period, a skilled labourer may produce more products than an unskilled labourer. So if we go by the example that the commodities, which take more time to be produced, is more expensive (although it is) than the

commodity which takes less time; then the commodity produced by unskilled labour would be higher than the commodity produced by skilled labour. However, it is not so.

Since it is difficult to measure every concrete labour for its final products and also difficult to measure the labourer's individual skill, so it is necessary to understand the quantity of "socially necessary labour-time" required for the production of a commodity. Marx meant that the value of a commodity ought to be determined on the basis of "abstract labour" (including all concrete labour and average degree of skill) and time necessary for production under normal working conditions. Furthermore, the value of a commodity involves not only "direct labour" (producing the final product, say car), but also "indirect labour" (producing the machinery, tools and acquiring the raw materials). Thus, the essence of labour theory of value is that the "relative exchange value of a commodity" is determined according to the average labour time necessary under the normal condition for its production.



CHECK YOUR PROGRESS

Q.1: What is Use Value?

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Q.2: How is the Value of a Commodity determined?

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8.5 THEORY OF SURPLUS VALUE

Now let us come to the major point i.e. how does the capitalist class accumulate profit or surplus value? To provide an understanding on the secret of profit making, Marx begins with a discussion on "capitalist circuit of exchange", M-C-M/. Before going in to a detailed discussion on "capitalist circuit of exchange", let us have a look at another form of exchange circuit–

"simple circuit of exchange". Under "simple exchange circuit", we can see two different exchange patterns: Firstly, commodity to commodity (C-C$^{/}$), here a commodity is directly exchanged for another commodity. Secondly, there is a pattern which begins with commodity (C) one produces then sales it for money (M) and finally use the money to buy some other commodity (C$^{/}$). It can be represent by the diagram: C-M-C$^{/}$. However, both the patterns essentially remain the same if we see the end result, which is finally to have a commodity that better suits one's needs. Therefore, "simple exchange circuit", in fact, technically does not express profit.

However, in the capitalist system, in which Marx was interested, the exchange circuit is inverted. In contrast to "simple exchange circuit", "capitalist exchange circuit" begins with a sum of money (M) which is invested to buy commodities (C), (which are combined in production process and yield a new commodity) and then the new product is sold for more money (M$^{/}$), than what was invested at the beginning. In the end of the process, the capitalist receives "more value (money) from circulation than he threw into it at the beginning". It is represented in the diagram as M-C- M$^{/}$. But the major question is how does the money increase at the end? As Marx asserts that, the "exchange of commodities does not itself create value". According to Marx, the profit is only realized through selling the commodities that the capitalist produces and the profit is already produced during the production process. So, to understand this, it is important to closely analyse as to what actually goes on in the interval between M and M$^{/}$ i.e. during the production process.

The capitalists in the beginning, with the capital or money (M), they invest and purchase commodities or means of production such as machinery, tools, and raw materials and also "labour power". These means of production are used within the production process and a new commodity is produced. Now, on the basis of the cost of production, the price of the new commodity is fixed which is more than its investment is. However, according to Marx, a distinction is to be made between "constant capital" and "variable capital". The "constant capital" is the investment made on "non-labour" things like machinery, tools, raw materials; etc; the capital invested in these non-labour things almost remain the same and usually does not create surplus value.

The capitalist also buys the "labour power" (capacity of labourer to add value to the commodities). The capital invested on labour power is "variable capital" and it is elastic, as it, Marx maintains, produces an excess value. In the factory system of production, the workers join the factory as labourers in which they sale their labour power to the capitalists and in return they are paid wage. It is also important to note that the labourer has no control over the process of production. Now, how is the wage of a labourer determined? The wage, the labourer is paid with, is measured on the basis of the daily basic subsistence-food, clothing, and accommodation etc to keep the labourers alive so that they will turn up next day for work. Marx maintains that the workers are not "cheated" (at least not according to capitalist rules), they are paid the full value of labour power; but they are not paid the equivalent of what they actually produce. In other words, the wealth the workers produce is greater than the wealth they need to sustain themselves. Let us say, in a ten hour working day, a worker produces a value within five hours which is equal to his wage (to meet his one day basic needs, on the basis of which the wage is paid); that means the worker works five hours for himself and the other five hours for the capitalist. The duration that is enough to meet the worker's basic needs or wage is called "necessary labour time". If the workers would have worked on their own rather than for capitalist they would have fed themselves by working just five hours a day and leaving the remaining hours for doing whatever they like. But since they sold their labour power with an agreement to work for ten hours, they have to work the remaining five hours for the benefit of the capital. Marx said "The fact that half a day's labour is necessary to keep the worker alive during 24 hours does not in any way prevent him from working a whole day." Marx calls this second portion of the working day "surplus labour-time."

In a very simple equation it can be presented thus: if a worker in a ten hour working day, produces ten quantity of particular commodity; then, the worker will be producing one commodity every one hour. Now, if the value of per commodity is, say, Rs. 20, that means the worker will be producing the value of Rs. 20 every one hour. On the other hand, the worker is paid

wage, say, Rs. 100 (the level of basic daily subsistence); that means the worker's necessary labour time is five hours (20 × 5 = 100). Bus, as the worker sold his labour power for ten hours, he is left with no options but to work for ten hours for the Capitalist and in the process the worker works for the capitalist extra five hours from which the capitalist earns Rs. 100 as surplus value.

8.5.1 Absolute and Relative Surplus Value

Now it is possible that higher the workers are made to work beyond the necessary labour time and greater is the surplus value the capitalists receive. Marx points out two strategies through which the capitalists accumulate more profit- *"absolute surplus value"* and *"relative surplus value".*

- **Absolute Surplus Value:** According to Marx, one way of accumulating surplus value is by prolonging the amount of working hours, say, from ten to twelve hours. If a worker's necessary labour is five hours that he can produce his basic needs, and the other seven hours will be capitalists' surplus value. In ten hours duration, the surplus value would be five hours. Now by lengthening the working hours to twelve, the Capitalist would gain surplus value of seven hours. Marx called this strategy "absolute surplus value"
- **Relative Surplus Value:** According to Marx another way for accumulating surplus value is by reducing the necessary labour time and by increasing productivity of the labour. This can be achieved by introduction of improvised machines and tools. With the introduction of machines the labour starts working faster and thus increases productivity; on the other hand if the equivalent of workers' maintenance costs can be produced within three hours instead of five because of fast production, the surplus labour time would increase from five to seven hours in a ten hour working day. Moreover, the productive activities are also increased by closely supervising the workforce, maintaining timetable and

discipline. Surplus under this condition is called by Marx as "relative surplus value".

Thus, Karl Marx Theory of Surplus Value is all about how the profit or surplus is accumulated under the capitalist mode of production. And this surplus comes from nothing, but the labour itself.



CHECK YOUR PROGRESS

Q.3: What is Labour Power?

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Q.4: Distinguish between Absolute Surplus Value and Labour Surplus Value.

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8.6 LETS SUM UP

- Karl Marx begins the "theory of surplus value" by asking the very basic question: where does the profit come from?
- To answer this question he developed the theory on "commodity" and made distinction between "use-value" and "exchange value".
- For Marx, an object technically to be a "commodity" must have an "exchange value".
- In labour theory of value, Marx explains that the value of a commodity is determined based on the average labour time required for the production of the commodity.
- In the capitalist mode of production and "capitalist exchange circuit" a capitalist first invests money (M); with the money he buys commodities (C) (which are combined in production process and

yield a new commodity) and then solds the new product for more money (M/). In the end of the process, the capitalist receives "more value (money) from circulation than he threw into it at the beginning". It is represented in the diagram as M-C-M/.

- The duration that is enough to meet a worker's basic needs or wage is called "necessary labour time" and the labour which is extended beyond the necessary labour time is the "surplus labour time"
- Two more ways for maximizing profit: "absolute surplus value" (obtained by prolonging the amount of working hours) and "relative surplus value" (obtained by reducing necessary labour time and increasing productivity of the labour, introduction of machines).



8.7 FURTHER READING

1) Bottomore, Tom (Eds.) (2001); *A Dictionary of Marxist Thought*; USA: Blackwell Publisher.
2) Foley, D. K. (1986); *Understanding Capital: Marx's Economic Theory*; London: Harvard University Press.
3) Royce, Edward (2015); *Classical Social Theory and Modern Society: Marx, Durkheim, Weber*; New York: Rowman & Littefeld.



8.8 ANSWER TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: Use value is the qualitative aspects of the value that is associated with a particular commodity. It is the usefulness of the commodities that fulfils the human needs.

Ans. to Q. No. 2: The Value of a commodity is determined on the basis of the average labour and time required for its production.

Ans. to Q. No. 3: Labour Power is the ability of the labourer to add value in a commodity, whether use-value or exchange value.

Ans. to Q. No. 4: The Strategy of the Capitalist to accumulate surplus value by prolonging the amount of working hours is called Absolute Surplus

Value. While, another way of accumulating surplus value by reducing the necessary labour time and by increasing productivity of the labour is called Relative Surplus Value.



8.9 MODEL QUESTIONS

A) Short Questions: (Answer each question in about 150 words)

Q.1: What are the important elements of “commodity”?

Q.2: Distinguish between Use Value and Exchange Value.

Q.3: How is the wage of a worker determined?

B) Long Questions: (Answer each question in about 300-500 words)

Q.1: Discuss labour theory of value?

Q.2: Give a detail analysis on “theory of surplus value”.

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