

MARXIST ECONOMIC THEORIES

As we have previously made clear, Karl Marx determined early in his life that violent revolutionary destruction of the present state of affairs was the prerequisite of significant human progress. In the elaboration of Marxism, then, we find the construction of a philosophical weapon capable of rousing anger and intensifying grievances to the point of volatility. This is the motivation for the Marxist economic theories—the labor theory of value and its extension into the theory of surplus value. These theories are the basis for all Leninist wars of “national liberation,” and are being intensively taught in places such as Nicaragua where communist governments are trying to consolidate their power.

According to these theories, “capitalism” is a system which cannot be reformed, but must be violently destroyed. In *Das Kapital*, Marx elaborates his labor theory of value and theory of surplus value. Through the labor theory of value, Marx wanted to show that workers alone produce value. Through the theory of surplus value, Marx wanted to show that capitalism requires exploitation, and cannot exist without it.

Marxists consider the economic theories expressed in *Das Kapital* to be merely an objective inquiry into the functioning of the free market economy, but they are not. They were developed in order to *destroy* the capitalist system, not in order to understand it. According to Marx, efforts of reform short of the destruction of private ownership of the means of production and the forcible seizure of political power by the proletariat would never free the workers from “capitalist wage-slavery.”

As the well-known Polish scholar Leszek Kolakowski observes, Marx’s labor theory of value and the theory of



**Marxist
Economic Theories**
Labor Theory of Value
Theory of Surplus Value

surplus value do not deal in a useful way with questions regarding “the quantity of goods produced, their manner of sale and distribution, or even the question of exploitation.” They serve merely to “arouse indignation at the fact that the ‘only real producer’ gets so small a share of the result of his work, while the capitalist, who contributes nothing to value, rakes in profits on the strength of being a property-owner.” Apart from this moral interpretation, Kolakowski continues, “it is not clear how the theory is supposed to throw light on the mechanism of the capitalist economy . . .”¹

Marxist economics is built around a condemnation of a system. As Mark Blaug of the University of London points out, “To say that an economist is a Marxian economist is in effect to say that he shares the value judgment that it is socially undesirable for some people in the community to derive their income merely from the ownership of property.”²

To be successful, however, an economic system must function in accord with the nature of human beings. It is in this sense more than any other that the system prescribed by the economic theories of Karl Marx has been a total failure. In order to condemn the capitalists, Karl Marx has put himself in opposition not only to the bourgeoisie, but more significantly to human nature itself. The ironic result is a theory which exacerbates the tragic conditions which Marx decried.

When Marxist principles are applied, and individual enterprise, profit production and the free exchange of goods are considered to be criminal activities, an economic disaster is produced. To sustain an economy under these conditions requires the continuous application of force and terror to the population. In spite of these measures, the best which can be achieved is stagnation in comparison with the economies of free nations of the world.

Although Marx’s economic theories have had, as Blaug says, “virtually no effect on modern economic thought,” they are nevertheless very useful as propaganda, particularly in the developing world. For that reason, we examine them here.

When we speak of Marxist economic theories, we are referring to the *labor theory of value* developed by the classical economists and adopted by Marx, as well as the *theory of surplus value*, which both Engels and Lenin described as one of Marx’s most valuable insights.

These theories find their greatest development in Marx’s *Das Kapital*, subtitled, “Critique of Political Economy.” Political economy refers to the activity of classical economists such as Adam Smith or David Ricardo, who accepted the free



market system as a natural and necessary system and attempted to understand it. Marx, by contrast, began with the belief that the free market system was an aberration and had to be destroyed by revolution.

As we pointed out in Chapter 2, Marx worked to advance revolution by developing an ideology, which he referred to as a “spiritual weapon.” He sought also to conceal his unyielding beliefs behind a facade of “science.” This process reaches its peak in his analysis of “capitalism.”

“Capitalism” as Marx viewed it is quite different from what we commonly refer to as capitalism today. For Marx, capitalism was one stage in the progression of the history of class struggles. Under capitalism, the two major classes which were struggling against one another were the workers and the capitalists. The workers are those who contribute their labor toward production, yet have no property, that is, no share in the ownership of the means of production. The capitalists, on the other hand, own all the property and contribute no labor toward production. Obviously, both are necessary to generate the products.

The worker, then, contributes his labor, while the capitalist contributes his capital. Marx would argue, however, that capital contributes nothing to the value of the products. Value comes exclusively from labor. The worker, then, is the sole contributor to commodity value. Yet the worker receives only the skimpiest of wages, enough to survive, while the capitalist takes the lion’s share in the form of profit.

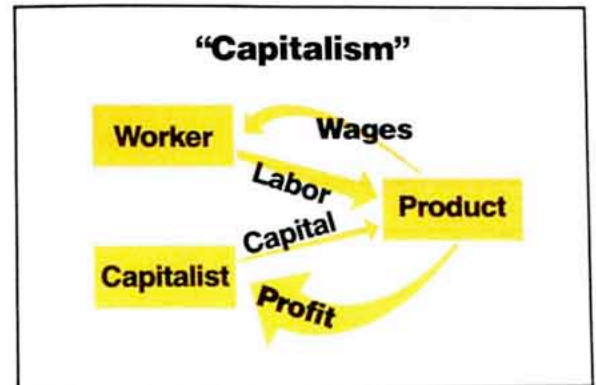
Marx set about to reveal to everyone the “true” nature of this process. He begins to do this with the labor theory of value.

I. The labor theory of value

A. Commodity value

According to Marx, the commodity is the basic unit of the capitalist economic structure. The commodity in capitalism is produced for the purpose of exchange rather than consumption. That is, the capitalist who produces it is interested in selling it rather than using it. For Marx, this is the beginning of the peculiar world of capitalism.

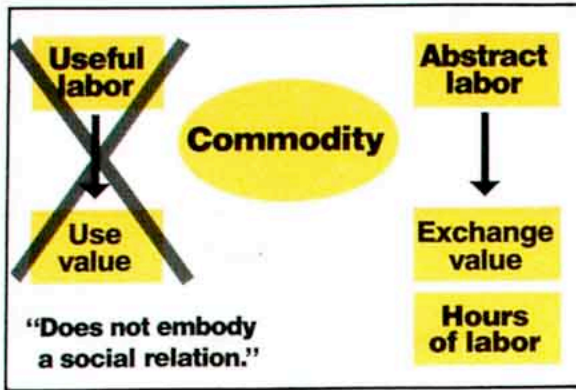
Marx next sets about to assign value to the commodity, and concludes that there are two types of value possible. This in turn leads him to consider two types of labor which generate these two types of value. The first type of value is determined by the particular use which is made of the com-



The labor theory of value

Commodity

**Produced for exchange
rather than consumption**



modity. This is "use value" generated by "useful labor." The use of a pen is to write; this gives it a certain use value. The use of a glass is to hold liquid. This gives it a certain use value.

The other type of value identified by Marx is "exchange value." Exchange value refers to the value of the commodity as it is circulated. That is, the exchange value is the *price* of the commodity. According to the labor theory of value, exchange value is the result of a different type of labor, "abstract labor." Abstract labor is generic labor. It is basic human effort, regardless of the specifics of the laboring activity.

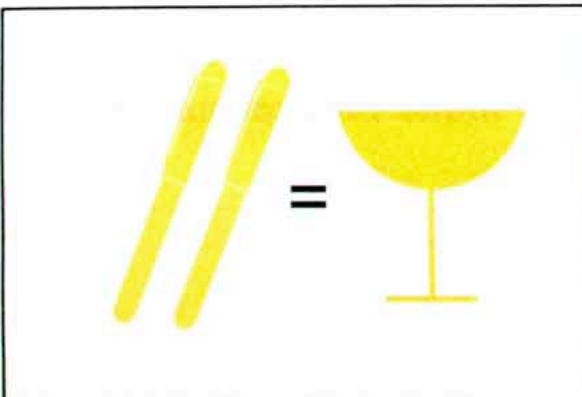
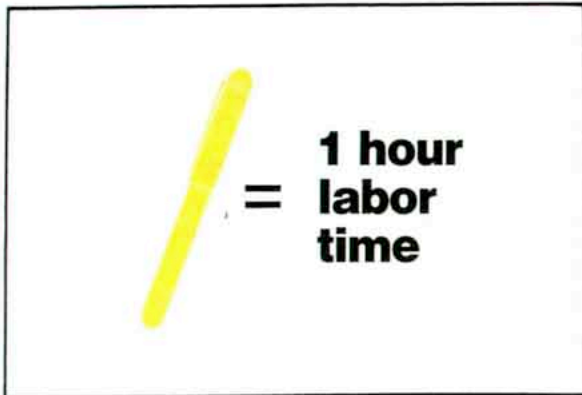
In Marxist economics, when reference is made to commodity value, the value referred to is exchange value. Use value is of no interest to the economist, because it "does not embody a social relation." That is, since the commodity in capitalism is produced for exchange, the important aspect of commodity value is exchange value.

Finally, the quantity of abstract labor, and thus the exchange value of a commodity, can be measured in the form of hours of labor expended to make the commodity. This measurement must include all hours of labor expended from the point at which raw materials are taken from nature to the point at which the product can be exchanged. Labor expended to make tools and machinery must also be included.

For example, if the pen requires a cumulative total of one hour of labor to make, then the value of the pen will be one labor hour. If the glass requires altogether two hours of labor, then the value of the glass will be two labor hours. In such a case, two pens will have the equivalent value of one glass.

To summarize what has been said, for Marx, commodity value refers to exchange value, which is equal to price. And this is equal to the number of hours of labor required to produce the commodity. The number of hours refers to the average time necessary for a worker in society to produce the particular commodity.

This may be regarded as the fundamental definition of terms for Marx's discussion of economics. It must be noted, however, that Marx will occasionally retract and restate his definitions in order to achieve correspondence between theory and reality. That is, faced with the fact that price has little to do with hours of labor, Marx later modified his concept of exchange value so that it is not directly related to price. If price is not equal to exchange value, or even clearly related to exchange value, then the term exchange value ceases to



have empirical meaning. It comes instead to mean something akin to the medieval "just price" and it has only a moral meaning. Since that is not the way Marx developed his theories, we will retain the definition of price as being equal to exchange value.

The essential point to be noted here is that according to Marx, value is determined in the production process, not in the market.

B. The conversion of labor hours

We immediately find that this theory contradicts what we might observe in the market place. We might find, for example, that in the market are a watch and a pile of gravel. The watch sells for \$50 and the gravel for \$5, yet it appears that it took five hours to produce each of them.³

In an attempt to salvage the labor theory of value, Marx introduces the concept of the conversion of labor hours. According to this concept, the hours of labor involved in digging gravel are simple and unskilled, while the hours spent manufacturing the watch are complex and skilled. A conversion factor must be calculated to show how much expenditure of human effort went into the different types of hours of labor. That is, both amounts of labor time must be expressed in terms of their common denominator, abstract labor hours. In this example, one complex, skilled labor hour would have the value of 10 abstract hours, while one simple, unskilled labor hour would have the value of one abstract hour. The watch is thus worth 50 abstract hours and the gravel worth five. The watch sells for \$50 and the gravel for \$5. The problem of the variation in the price of watch and gravel is apparently solved.

C. Critique of the labor theory of value

What is the meaning of abstract labor hours? In a Marxist economy they are supposed to serve as the basis for the setting of prices. In reality, however, they can never be determined by empirical measurement. They can only be back-calculated after prices have been set in the marketplace.

This is in fact how labor hours are calculated in the Soviet Union today. To calculate the amount of labor time required to produce even an extremely simple commodity is impossible. Such a calculation would require an almost infinite regression of calculations to determine the labor expended in each step of manufacture plus the labor expended on tools, tools used to make tools, etc. For this reason, prices in the Soviet Union are set in relation to world free market prices. Marshall Goldman describes this anomaly:

Value = Price = Labor hours
Average labor hours

According to Marx
Value is determined in the production process
Not in the market

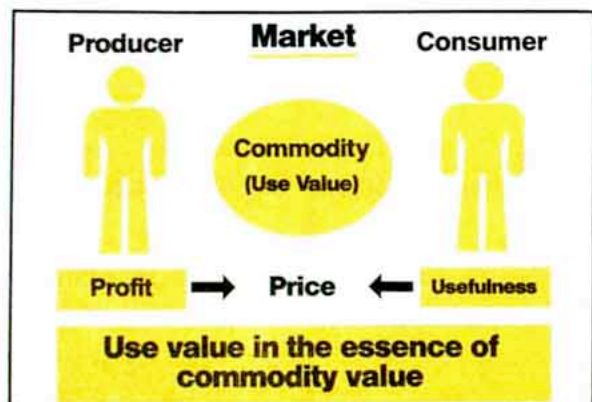
The conversion of labor hours	
Watch  5 hours labor time Complex Skilled	Gravel  5 hours labor time Simple Unskilled
1 useful hour = 10 abstract hours	1 useful hour = 1 abstract hour
50 abstract labor hours	5 abstract labor hours
\$50	\$5

Critique of the labor theory of value
Abstract labor hours cannot be determined prior to exchange
In the Soviet Union labor hours are calculated from prices
Prices are determined in the market

The best analogy is the way the Council of Mutual Economic Assistance (CMEA) countries decide how to price the goods they sell to one another. Because their currencies are not convertible, and because their internal pricing systems are so irrational and arbitrary, they find it simpler just to use analogous foreign-trade prices charged for similar goods by private corporations to each other in the capitalist markets. When a Soviet planner was asked how CMEA would decide prices when, as promised, the whole world became communist, he answered with a knowing wink, "We will keep one country capitalist just for this purpose." Whether he realized that world market-prices could only be meaningful when there are numerous parties involved was unclear.⁴

The market, then, is the place where meaningful prices can be determined. Let us consider the operation of the market.

The market



In the market, producer and consumer meet. The center of their relationship is the commodity. In particular, they are interested in the use value of the commodity. The ways in which these two parties view the use value of the commodity are different, however. Let us take the example of a watch. The consumer is concerned about the usefulness of the watch. That is, he wants this watch to tell time, and perhaps perform the other functions of a modern watch. He therefore assesses the usefulness which a particular watch being offered on the market has for him.

The producer sees things from a different perspective. The use value of the watch is interesting to him because of its potential to return a profit to him. Based on his assessment of its profit-returning potential (profitability) he will assign an asking price for the watch.

Let us say that the consumer comes to the market with \$100 in his pocket and a certain idea of the watch he wants. The producer comes with his watch, in which he has invested \$70. He asks \$85 for the watch. The price is agreeable to the consumer, and the transaction is made.

We see clearly that use value is the essence of commodity value. The price-setting process does not directly entail a calculation of labor hours necessary to produce the commodity.

Why the labor theory of value?

The labor theory of value is presently considered to be a

curiosity of the 19th century by most economists of the free world. It only plays an important role in economic thought in Marxist countries or communist parties where prior allegiance to Marxist thought has been given. One may ask, why did Marx saddle himself with a theory developed by the classical economists whom he detested, and rejected since that time by almost all economists?

The answer is that the labor theory of value plays an important role in the overall structure of Marxist economic theories. Marx clearly hoped to win the workers to communism by showing them that all value comes from labor. Some persons have said that Marxist revolutionaries promise the workers ownership of everything if they will join the revolution. It may be more accurately said that Marxism seeks to convince the workers that they are already the rightful owners of everything, and when capitalist economic relationships are destroyed, their ownership will be recognized and acknowledged.

II. The theory of surplus value

Engels, in his speech at Marx's graveside, cited the theory of surplus value as Marx's greatest achievement. Lenin called it the "cornerstone of Marxist economics" and based his theory of imperialism on it. Today in Nicaragua, children are indoctrinated in surplus value theory in primary school texts. Let us examine this important component of Marxist ideology.

The manufacturing process

According to the analysis made by Marx, there are three components which enter into the manufacturing process to yield the product. These are the raw materials, the machinery, and the labor power of the laborers. Let us illustrate these three with the example of the shirtmaking industry cited frequently by Marx in *Das Kapital*.

In the shirtmaking process, the raw material would be the cloth, the machinery would be the sewing machine and the labor power would be sewing. The product, of course, is the shirt itself. The role of the Marxist economist is to sum up the values contributed by each of these elements. Let us say in our example that the manufacturer pays \$1 for the cloth needed for each shirt. He also sets aside \$1 in a depreciation account for every shirt that is made. He can use this money to buy a new sewing machine when the present one is worn out. He also pays his laborers \$2 for every shirt they make. Finally, he charges \$7 per shirt in the market at the time of

The purpose of Marx's economic theories

Win the workers to Communism

Show that all value comes from labor

The theory of surplus value

Manufacturing process			
Raw Materials	+ Machinery	+ Labor Power	→ Product
Cloth	Sewing Machine	Sewing	Shirt
Sum of Values			
\$1	\$1	\$2	\$7
Which capital is "variable" capital?			
No	No	Yes	

the sale. The \$7 represents the real value of the shirt as determined by the labor theory of value.

... commodities are sold at their real values, and profits are derived from selling them at their values.⁵

Obviously, the sum of the values expended by the capitalist is \$4, and yet the amount he recovers from the sale is \$7. There is a difference of \$3 which the capitalist calls "profit" and keeps for himself. The question posed by Marx is, does that profit belong to the capitalist? If not, to whom does it belong? To answer that question, Marx seeks to determine which of the amounts of capital expended in the manufacturing of the shirt is "variable" capital. That is, which amount of capital is increased in the process of manufacturing the shirt.

According to Marx, the capital spent on raw materials is not variable. It is "constant capital." The value of the raw materials does not undergo any change during the process of manufacturing. Marx also determines that the capital spent on machinery is constant, and not variable. Marx claims that the machine contributes its own exchange value into the products which it makes. To find out how much exchange value went into each product, take the price of the machine and divide it by the number of products manufactured before it wore out. The machine is transferring that much exchange value into each product. Marx also believed that the capitalist is aware of this amount and is setting it aside out of his revenue so that he will be able to buy a new machine when the old one is worn out.

If we now consider the case of any instrument of labour during the whole period of its service, from the day of its entry into the workshop, till the day of its banishment into the lumber room, we find that during this period its use value has been completely consumed, and therefore its exchange-value has been completely transferred to the product.⁶

If neither the capital invested in raw materials nor that used to depreciate machinery is variable capital, then what is left? The answer is obvious. Marx maintains that the capital used to purchase the worker's labor power is variable capital. It is this capital which gives rise to the profit. The profit comes exclusively from the labor power of the laborer.

In elaborating his theory of surplus value, Marx argued that there are two time periods within each working day. The first few hours of the day are the necessary labor hours. The labor performed by the laborer during this time is sufficient to

Working day	
Necessary labor hours	\$2 necessary wage
Surplus labor hours	\$3 surplus value

generate enough exchange value to feed and clothe him and allow him to reproduce, and this is exactly what he will be paid. The remaining hours of the day are the surplus labor hours. The worker, as he works through these hours, is generating surplus value which the capitalist takes from him. In our example, the worker on the sewing machine will generate \$2 of exchange value during the necessary labor hours, and that will be his pay. Then, as he finishes the day for which he has sold his labor power, he will generate another \$3 of surplus value for the capitalist.

Marx claimed that with this insight he had unlocked the secret of capitalist production and could now foresee the demise of capitalism. Marx said that with the \$2, the capitalist in our example could buy a day of labor power for its exchange value. Remember that the exchange value is equal to the amount of labor necessary to produce the commodity. In the case of labor power, said Marx, that would be equal to the necessities of life needed to keep the worker alive.

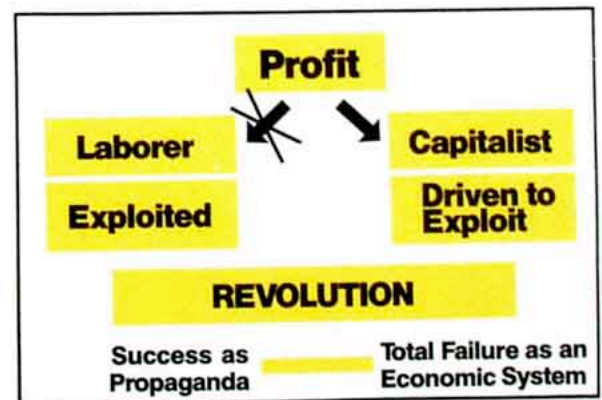
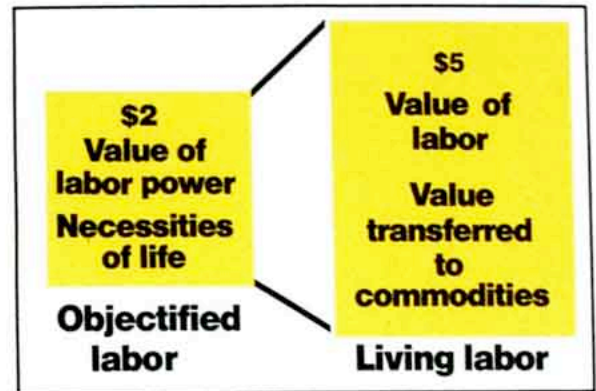
Having purchased the labor power for \$2, however, the capitalist is now in a position to see the value of his purchase expand. In our example, the value expands to \$5. This \$5 is the value of the labor expended by the worker during one day. This value is transferred to the capitalist in the form of the commodities which he claims to be his property. He sells the commodities, and pockets the surplus value.

This is possible, says Marx, because labor power is a unique commodity which expands in value as it is used. The capitalist buys the objectified labor power of the worker, but it is released as living labor of greater exchange value.

The conclusion of this analysis is that profit belongs to the laborer, but is unjustly seized by the capitalist. The laborer is locked into the position of being continually exploited, and the capitalist himself is driven to exploit. If he ceases to exploit his workers, he will be mercilessly destroyed by the other capitalists.

The only way out of the dilemma—the only solution to the contradiction of capitalism—is revolution. When capitalism is destroyed, exploitation will end.

The theory of surplus value has served well as propaganda. It has fueled the fires of revolution, particularly as the basis of Lenin's theory of imperialism. Tragically for those countries which have fallen to communism, however, Marxist economics and the theory of surplus value are a horrible failure as a functioning economic system.



III. The impact of Marxist economic theories in communist countries

In the Soviet Union and other communist countries, attempts have been made to make Marx's economic theories into law. In brief, the application of those theories has been disastrous for the Soviet economy.

The official Soviet economy does not allow price setting and free exchange of goods in the market. Production is centrally planned. Factories depend on central planners to supply them with goods, and they in turn must fulfill quotas given by the central planners. The production process is thus insulated from signals from consumers which show their desires and needs. The result is inefficiency and failure to meet the needs of consumers. If plans call for the production of shoes, shoes are produced even if people need coats.

Lawrence Minard and James W. Michaels describe the ills of central planning in an article in *Forbes*.

At Alma-Ata we visit a carpet factory. It is run by a brisk and efficient woman, Klara Nijasbayeva. By American standards it is quite small, producing about 1.2 million square yards per year with 1100 workers. Carpets are in great demand in the Soviet Union, and these seem of good quality. Nijasbayeva says she could easily sell many times the current output if she had the capital and resources. She is having trouble keeping workers, too. Why not raise the price of carpets to what the market will bear, we ask? That way the factory derives extra money for expansion and for bidding raw material and workers away from other factories. The director shakes her head. "Nyet, nyet. That would be unfair to workers in other factories. One worker would be exploiting another." In theory no one gets exploited, but few people get carpets. Those who do manage to get carpets probably bribed a shop employee. Meanwhile, wool and labor that might have gone to make much wanted carpets go instead to make shoddy jackets, which hang unsold in Moscow's GUM department store.⁷

Empirical arguments against a centrally planned labor-value economy

It is interesting to note that within the Soviet Union, almost all agricultural lands are controlled by the state. However, most of the Soviet farmers also have access to small, private plots which comprise less than 4 percent of the country's arable land. It is estimated that these plots produce 25

per cent of the Soviet Union's total crop output, an enormous proportion in comparison to collective and state sectors.⁸ Clearly, the Soviet system fails to give the people the necessary incentive to work for the state.

Another example is China. In the late 1970s, Zhao Ziyang, the first secretary of the Communist Party in Si Chuan province, began an experiment whereby he permitted six factories to keep a portion of their profit. They could use that profit for reinvestment and new capital equipment or for the purpose of distributing bonuses to the workers. They also could market directly any surplus product, or diversify into new products and seek out export markets. Likewise, they had the right to reward productive workers and punish those who were not productive. Today that program has expanded from six factories to 6,600 factories which comprise more than 45 percent of the national industrial production! In December 1984, communist Chinese spokesmen went so far as to warn against rigid adherence to Marxist doctrines.⁹

The Soviet economy today

From 1951-1955, the Soviet GNP showed an annual growth rate of 6.0 percent. This rate has been steadily decreasing since that time. From 1976-1980, the rate of growth of the Soviet economy was less than 3 percent.¹⁰

Today Eastern Europe is \$80 billion in debt to the Western world. Many people say that if the West were to cut off its support, it would be only a matter of time before these economies crumble.

Why is the Soviet bloc in deep economic trouble? Essentially, it stems from the Soviet Union's dogmatic adherence to Marxist economic principles. To cover up for the inoperability of the Marxist economic system, its adherents have opted for corruption and graft.

In *USSR: The Corrupt Society*, Konstantin Simis points out that there is no room within the Soviet society for those who do not accept corruption. The same is mentioned by Ilja Zemtsov in *Corruption in the Soviet Union*. Simis emphasizes that within the Soviet Union anybody who is really honest about why he cannot fulfill production quotas is seen as being an enemy of the state.

Simis cites the example of an appliance factory which was expected by the government to exceed its production quota for the year. When it came down to the last few days, it was apparent the goal could not be fulfilled. In order to cover for this, the management collected the appliances of the people in the village where the factory was located, repainted

them, and presented them as part of the yearly production. A few days later the appliances were returned to their owners.

As a result of this achievement, the manager of the factory received a higher post within the government. In addition to a huge bonus, his second man became the manager of the factory. The technicians also received a very handsome bonus. The workers received some praise and an evening where they had an opportunity to get drunk.

In *Analysis of a Spector*, French Sovietologist Alain Besancon concludes that the Soviet economy is, in fact, a disaster. Besancon notes, for example, that the Soviets proclaim that they are the largest steel producer in the world, but it is not at all clear where the yearly production of 145 million tons of steel is going. This quantity is equivalent to the joint output of Japan and Germany which together manufacture 12 million cars. But the Soviet Union produces less automobiles per year than Spain, it has only a slightly larger railway system than India, it has fewer paved and developed highways than France and even in terms of weaponry, its tank production cannot consume more than a few million tons of the steel that it supposedly produces.

Besancon concludes that these 145 million tons represent, first of all, the production of actual steel; secondly, the production of inferior steel; thirdly, the production of reject steel; fourthly, the production of steel for rust; fifthly, the production of pseudo-steel; and finally, the pseudo production of steel.

The notion that the Soviet Union is the second economic power in the world is also a myth. Besancon points out that the Soviet Union has fewer telephones than Spain and fewer automobiles than Brazil. Luxuries such as computers or even photocopiers are virtually unknown.

Besancon mocks the idea that the USSR has "a standard of living a little higher than that of Spain." Although the Spanish worker may need almost the same amount of time on the job as his Russian counterpart in order to buy a television, a pair of shoes, or a vacuum cleaner, Besancon notes that there are obvious differences.

In the case of the USSR, we are talking about the kind of television "one would buy in the flea market." When we are speaking of shoes, we are "talking about the kind of shoes a Moroccan migrant worker would refuse to wear." When speaking of a vacuum cleaner, we would be talking of one that only "works when you kick it."

Besancon suggests that, instead of Spain, it might be

more appropriate to say the USSR has “a standard of living a little higher than that of Bangladesh.”

IV. Critique of the theory of surplus value

We can group our criticism of Marx’s theory of surplus value under three headings.

1. Oversimplified

Marx conceived of the manufacturing process as consisting largely of three components: raw materials, machinery and labor. This, however, is too simple a view. Marx shows very little comprehension of the role of the investor. For Marx, the investor is a capitalist. As such, he is an exploiter, and if he exploits ruthlessly enough, he will be able to pocket huge sums of money.

In reality, the role of the investor is much more demanding, more creative, more risky, and many other things. The investor must determine where and when to invest capital. He has no guarantees of success, and greater ruthlessness is not necessarily an assurance of greater effectiveness.

There are other key roles as well. These include management and secretarial, as well as inventors, engineers, researchers and purchasers. All of these must function well together if there is to be success in manufacturing.

Yet this is only the first step. The product must now be taken to the market. As we have already seen, the Marxist conception of the market place is extremely inadequate. For Marx, the price was pre-fixed by the number of labor hours even before the product is taken to be sold. The profit of the capitalist is thus automatic. Reality is rudely different. Price is determined in the market, and nothing is automatic.

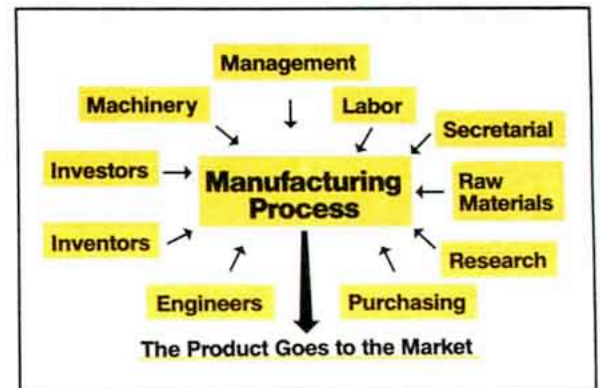
Prices depend on a number of factors in the market place, but chief among these are supply and demand. When there is an oversupply, the price falls. When there is a scarcity, the price rises.

In his text, *Free to Choose*, Milton Friedman mentions three important functions performed by prices in organizing economic activity:

First, they transmit information; second, they provide an incentive to adopt those methods of production that are least costly and thereby use available resources for the most highly valued purposes; third, they determine who gets how much of the product—the distribution of income.¹¹

Marx

1. Oversimplified



Price depends on:

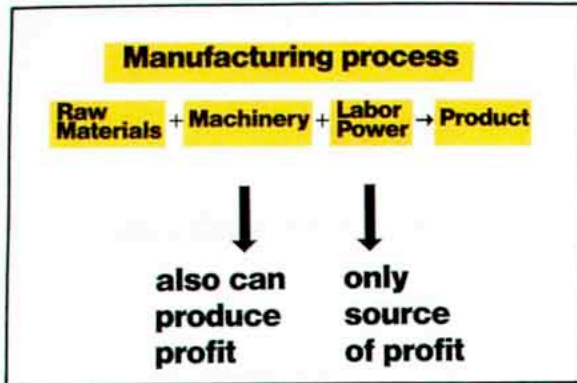
Supply-Demand

Oversupply \Rightarrow low price

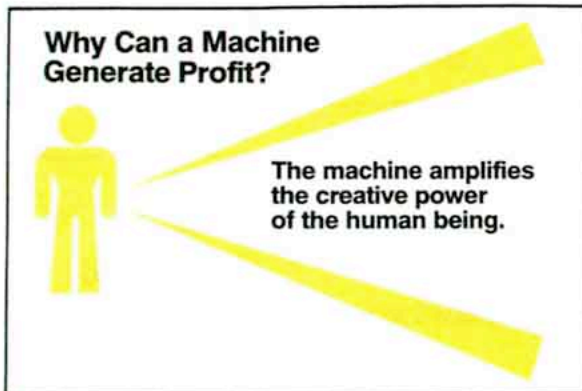
Scarcity \Rightarrow high price

Quality

Poor quality \Rightarrow no sale



Automated assembly plants



Marx

1. Oversimplified

2. Unrealistic

Perhaps even more fundamental in the price-setting process is product quality. If a product is of poor quality, there will be no sale no matter how many labor hours have been invested in production. (Where there is an extreme scarcity of consumer goods, such as the Soviet Union and other places, consumers may buy regardless of quality and regardless of their own personal needs. In the former case, they have no choice. In the latter, they buy when there is an opportunity and barter later with other purchasers.)

Even if we were to grant to Marx that there are only three components in manufacturing, we still find that he makes a serious oversimplification. Marx claims that labor power is the only source of profit, and that capital invested in raw materials and machinery is constant capital. We observe, however, that capital invested in machinery is not constant capital, but is in fact capable of multiplying itself, even without labor power.

Fully automated machines, such as a tape recorder assembly machine in the Matsushita Electric Company, are highly productive. This particular machine does the work previously done by six employees. The employees were given other less tedious jobs in the same company.

Another example is provided by robot welding machines in the Honda Motor Company. These machines are able to perform 130 welds in 45 seconds, a job which formerly required 30 people 32 minutes. Furthermore, this particular assembly line job was regarded by auto workers as one of the most uncomfortable and dangerous.

Marx viewed machinery under capitalism as an instrument of exploitation, and failed to understand the tremendous potential which machines have for liberating the worker from tedium at the same time that they generate revenues for the manufacturer. A machine is not constant capital, but is able to generate profit by amplifying the creative power of a human being.

2. Unrealistic

Marx condemned "capitalism," exalted "socialism," and predicted the coming of "communism." Yet the simple fact remains that development requires capital. This is true in capitalist countries, socialist countries, and countries such as the Soviet Union which exhibit a type of state-monopoly capitalism.

The manufacturing process can be said to require the elements of capital, management and labor. These three must act together to give the product, which in turn is taken to the

market. In the market, there is no guarantee of commercial success. This depends largely on whether the manufacturer has been able to satisfy some need of the consumer. If the sale is realized, the manufacturer receives a profit.

In the Marxist perspective, profit is evil and a crime. In the CAUSA view, however, profit is not evil. Profit is a reward which society returns to those who increase social wealth by applying their human creativity. Profit is good, but profit must be shared in a fair way with all those who join in contributing their creativity to serve society. Too often, this is not done. Herein lies the "crime of the capitalist." This crime is not in making profit, but in the frequent failure to give a fair share of profit to all those who deserve it.

This crime has resulted in a tremendous amount of resentment being generated toward businessmen and corporations. Such resentment is fertile ground for communism.

It should be remembered, however, that profit is not guaranteed. Those who demand a fair share of any profits generated must also be willing to accept a fair share of losses.

3. Incomplete

Marx said very little about the organization of communism, his ideal economic system. In the *Critique of the Gotha Program*, however, he wrote the slogan which has become popularized as the simple description of life under communism. "From each according to his ability, to each according to his needs."

This slogan has appeared to many to be a beautiful description of an ideal society, and it must be admitted that there is something poetic about it. We need to inquire further, however, to understand how such a slogan could be reality.

How can abilities be determined? More specifically, who can determine what a person's abilities are? Furthermore, who can determine a person's needs? We may intuitively feel that some things are necessities, and others are luxuries, but who can definitively state such things? Someone may feel that the only transportation they need is a pair of shoes, while someone else feels they need a bicycle. When they have a bicycle, they may feel they need a car. When they have a car, they may feel that their time is so valuable that they need a helicopter. Who can say?

Perhaps if there was a way for God to make known to each individual what was expected of him and what he would be allowed, we could each accept that. Since God has not made such things widely known, we may feel most comforta-

"Capitalism"

"Socialism"

"Communism"

Development requires capital

Manufacturing Process



Marx

1. Oversimplified

2. Unrealistic

3. Incomplete

**From each according to his ability,
to each according to his needs.**

Goes against human nature:

1. Desire to receive: self-improvement
2. Desire to contribute: creativity

**Who determines—Abilities?
—Needs?**

- | | | |
|--------|---------|-----------------------------|
| 1. God | 2. Self | 3. Third party
The State |
|--------|---------|-----------------------------|



ble making such decisions for ourselves. At least then we have no one else to blame. In the communist world, however, these decisions are made by a third party, the State. The State undertakes to determine the abilities and needs of the people through an elaborate system of quotas and allotments.

This would be fine if man were a machine. It is easy to measure the needs and abilities of a machine. When applied to human beings, however, it does not work. It goes against the most fundamental aspects of human nature. We have spoken of the nature of everyone to give and to receive. The desire to receive in a general sense may be equated to the natural desire for self-improvement. The material aspects of self-improvement are denied by the communist system.

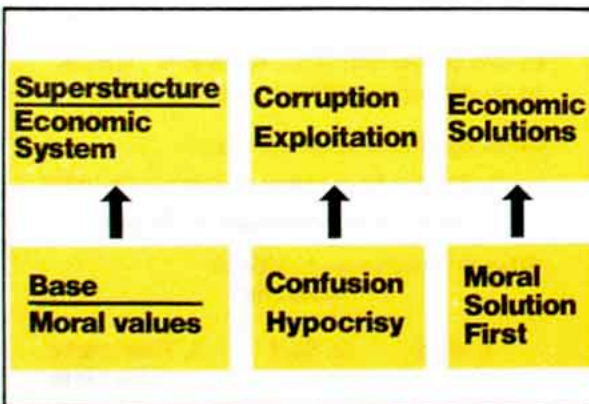
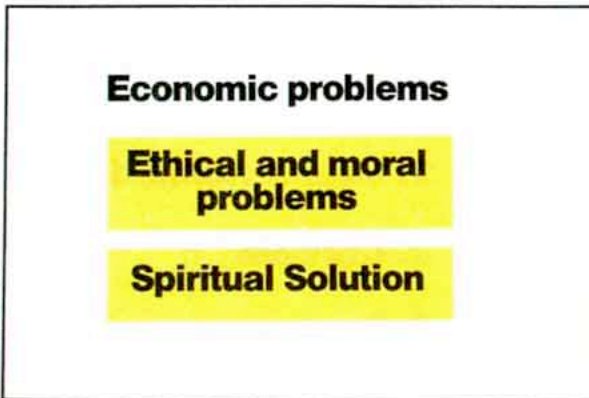
Human nature also exhibits the desire to contribute, the aspect of human creativity. Creativity and total personal development are stifled under communism.

V. Conclusion

There can be no question that God, as the creator of human beings and the Father of humankind, wishes to provide for His children in every way. It must therefore be God's Will that an economic system be established which offers each person the opportunity to be well-cared for and satisfied in an economic sense. In the past, it has appeared to many thinkers that centralized planning would do away with economic ills and be more efficient than a free-market based economy. The dismal failures of the socialist economic experiments of this century have now shown this to be false. Highly centralized and planned economies do not work. They thwart human nature and are wasteful of resources rather than efficient.

Socialist systems abrogate the rights of private property, exert state controls and deny individual free choice. In doing so, they directly oppose three basic aspects of human nature: (1) the desire to better oneself, (2) creativity, and (3) the drive to achieve. Because they oppose these basic human traits, they are sure to fail.

God has given us a model illustrating the proper balance between central coordination and individual freedom in the form of the human body itself. We interpret the functioning of the body in human social and economic terms, holding fast to three basic principles: the sacred dignity of the person, the social nature of human life, and the obligation to assign social decisions to the level of authority best suited to take them.



The human body: model of an ideal economic system

The human body exhibits a beautiful and harmonious balance between individual freedom and central coordination. Within the body, each cell, although it forms part of some body organ or tissue, is required to maintain itself autonomously. That is, the cell is responsible for its own metabolism, and determines how much nutrients and oxygen it will draw from the bloodstream. The body, then, operates in accord with principles like those found in a free market system.

There is, however, a central coordinating of the body as a whole. The body exists in order to support the overall purpose of the individual person. The individual exists in order to love God and his fellow human beings. The brain and central nervous system coordinate the body's activities in pursuit of this purpose. In this way, the parts of the body are called upon to function in harmony. Although centrally coordinated, the organic functions of the body are largely self-regulating. The stomach resists attempts to over-stuff it. The liver responds to shortages in the blood, by releasing stored-up nutrients. The heart and lungs adjust their rates according to the body demands. The more we examine in detail the functioning of the body, the more we see a remarkable balance between central coordination and individual autonomy and decision-making. It is the position of CAUSA that the body is a God-given model of a proper economic system.

The free market system

The free market system is the best system which has been devised to try to accommodate the basic human desires mentioned above. The desire to better oneself is served by the opportunity which free markets give to material incentives. The desire to be creative is served by the freedom of the market. And the desire to achieve is served by the opportunities created for fair competition.

The free market system, or the system of free enterprise, is the system which most closely resembles the functioning of the human body. The free market system allows individuals to draw from the market as they see fit, but allows for intervention if there is a serious disorder. The system maintains medical forces to come to the aid of stricken individuals, and security forces to enforce laws made for the good of the whole. These forces are only called into action as needed, however, and the system generally functions without them.

In the free market system, the state is strictly limited. One of the clearest limitations on the state is the principle of private property. The right to private property is a natural right, one which is further justified in the light of the common good, for private property encourages the right ordering of the use of goods, providing incentives for good stewardship and imposing upon all responsibilities to respect the rights and property of others. Its existence is reflected in the ancient commandment, "Thou shalt not steal."

The right of private property is not absolute, however. Those who own property have responsibilities to God, to their communities, and to all their fellow human beings. Thomas Aquinas once wrote that a human being "ought to possess external things not as his own but... so that... he is ready to communicate them to others in their need. Hence, the Apostle says (1 Tim 6:17-18): 'Charge the rich of this world... to give easily, to communicate to others.'" Owners are temporary stewards of a portion of the earth, and each one of us will one day give to the Creator an account of our stewardship.

Only a free market system allows economic agents regular, reliable, ordinary liberties. Only a market system respects the free creativity of every human person, and for this reason respects private property, incentives (rather than coercion), freedom of choice, and the other institutions of a free economy. A market system obliges its participants to be "other-regarding," that is, to observe the freely expressed needs and desires of others, in order to serve them. A market system is not morally validated because it is productive, for any economy can achieve a certain productivity through coercion. A market system is moral because it is the only system built upon the liberty of its participants.

The market is not an "Invisible Hand" which makes everything right. A market is only an arena which provides us an opportunity. It allows us liberty of conscience. What we make of it determines our character and prepares us to meet our Judge and live out our eternal lives.

Critique of Western economies

Western societies may be considered to be composed of three integrated systems: an active political system, a dynamic economic system, and a vital moral and cultural system. It was Karl Marx who first named the economic system of "bourgeois democracy" (which he regarded as a fraud) "capitalism." He did so in order to condemn it. In this chapter, we have rejected Marx's critique of free economies. At the same time, we must look at our Western society to see what is the real source of its ills.

It is the view of CAUSA that the cause of the ills of the economic system lies in the degeneration of the underlying moral and cultural system. Marx held that morality was part of a "superstructure" rising above the economic "base," but in the view of CAUSA, *the moral system is the base*. Because of basic flaws in human nature, there exist exploitation and abuse in the economic sphere. These flaws are part of man's "fallen nature." They are a result of the human fall from God and the multiplication of human sin. They are the nature of alienated man, and it is part of the task of religion to instruct people in the ways to overcome their selfish fallen nature.

The CAUSA solution

Complacency, non-belief and particularism have handicapped our society today in its function of guiding people to be unselfish and Godly. CAUSA maintains that a spiritual solution is necessary. By spiritual solution, we mean a solution involving the human heart and spirit. We need to experience God, and this will bring about an internal revolution of man.

We in the West may take instruction from the remarkable economic miracles which have occurred in recent years in Asia. The emergence of Japan from the ashes of destruction, and the multiplication of many "Japans," such as South Korea, Taiwan, Singapore and Hong Kong, are a testimony to the importance of moral, cultural and spiritual factors. In particular, these societies adhere to a strong "family ethic." The society as a whole is regarded as an extended family. A business enterprise, for example, is regarded as a family. Workers are not laid off in times of crisis, but rather the entire family suffers through while providing for its own. In return, the enterprise demands loyalty from its employees. In this way, much job-hopping is avoided, and this may benefit the enterprise greatly.

Amazingly, these are societies which are based upon Confucianism rather than Christian ethics. Because Christianity views God as the Father or Parent and humanity as the children of God, one would expect that such family ethics would be a part of our Western societies. This would be the case were it not for the predominance of materialist thinking in the West. It is this viewpoint which must be transformed and replaced by a Godly viewpoint. Although in name we are Christian, in practice, we have often been materialists.

The family itself is the building block of a free society. One can understand neither democracy nor a market economy apart from the sound structure of family life. It is no accident that totalitarians always seek to infiltrate, weaken and destroy the integrity of the family, sowing mistrust and suspicion in this sanctuary of human trust and love. Both in personal life and in the reliable functioning of a society, the family is a crucial institution. It is a bridge between personal morality and social morality, the school of both personal virtues and social virtues, and without it, neither personal life nor economic life can survive and prosper.

CAUSA calls for freedom in family life and freedom in the market place. Above all, CAUSA calls upon us to become the unselfish and virtuous persons who can bring God's love and justice into the society, nation and world. The best economic system for the present time is a free market system run by God-centered men and women.

CHAPTER FOUR NOTES

1. Leszek Kolakowski, *Main Currents of Marxism*, Vol. I, Oxford University Press, 1978, p.330.
 2. Mark Blaug, "Economics," in *The New Encyclopaedia Britannica*, 1983, V.6, p. 265.
 3. Let us assume for this example that it is possible to calculate labor hours, although we will later show that this cannot be done.
 4. Marshall I. Goldman, *USSR in Crisis*, New York, Norton, 1983, p. 50.
 5. Karl Marx, *Wage-Labour and Capital, Value Price and Profit*, New York, International Publishers, 1983, p.37
 6. Marx, *Capital*, New York, International Publishers, 1967, Vol.I, p.203.
 7. Lawrence Minard and James W. Michaels, "Why workers won't work in the Soviet Union," *Forbes*, December 6, 1982, p.144.
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 9. *The New York Times*, December 8, 1984.
 10. Goldman, p.47.
 11. Milton and Rose Friedman, *Free to Choose*, Avon Books, New York, 1980, p.6.
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