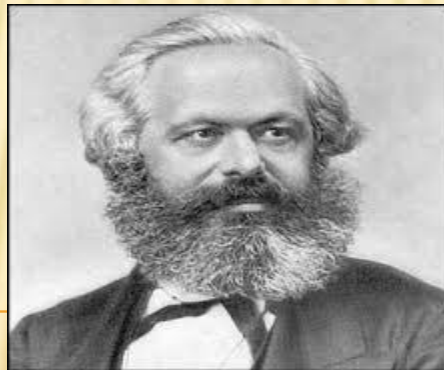


MARXIAN MODEL OF GROWTH



KARL MARX

Among the few famous persons who have influenced not only the masses but also the intelligentsia in the world by their writings and teachings, Karl Marx has a most honored place. He is regarded as the founder of modern communism which had taken deep roots in many countries of the world. This great man's works are significant from the point of view of economics also. The four volumes of his magnum opus "Das Capital**" containing also 4000 pages provide useful source material for study by sociologists, Politicians, historians, social reformers and economists. Some of his views relating to economic growth are:**

Assumptions of the Theory

1. There are two principal classes in the society. (1) **Bourgeoisie** and (2) **Proletariat**.
2. Wages of the workers are determined at **subsistence level of living**.
3. Labour theory of value holds good. Thus **labour is the main source of value generation**.
4. Factors of production are owned by the capitalists.
5. Capital is of two types: **constant capital and variable capital**.
6. Capitalists exploit the workers.
7. Labour is **homogenous** and **perfectly mobile**.
8. **Perfect competition** in the economy.
9. National income is distributed in terms of **wages and profits**.

BASIC TERMS OF KARL MARX MODEL

Reserve Army- The concept of reserve army used for the labour who become unemployed due to technical advancement and they are willing to work at the subsistence level

Surplus value (S) –Surplus value is the value created by the labour of wage workers over and above the value of their labour power and gratuitously appropriated by capitalist

BASIC TERMS OF KARL MARX MODEL

- × **Constant capital (C)** This refers to such expenditure as on factory buildings, machines and equipments, raw materials etc.
- × **Rate of Surplus Value** - The rate of surplus value is the ratio of surplus value to variable capital
- × **Variable capital (V)**-It refers to the labour power and wages paid to the workers

BASIC TERMS OF KARL MARX MODEL

- × **Rate of profit** is the ratio between surplus value and both the constant capital and variable capital
- × **Organic composition** of capital is expressed as the ratio between constant capital and variable capital

MARXIAN CONCEPT OF ECONOMIC DEVELOPMENT

In Marxian theory, production means the generation of value. Thus economic development is the process of more value generating, labour generates value. But high level of production is possible through more and more capital accumulation and technological improvement.

At the start, growth under capitalism, generation of value and accumulation of capital underwent at a high rate.

After reaching its peak, there is a concentration of capital associated with falling rate of profit. In turn, it reduces the rate of investment and as such rate of economic growth. Unemployment increases. Class conflicts increase. Labour conflicts start and there is class revolts. Ultimately, there is a downfall of capitalism and rise of socialism.

PROCESS OF ECONOMIC GROWTH

PROCESS OF GROWTH



GROWTH OF CPITALIST ECONOMY

- *Labour is principal source of production.**
- *Capitalist are owners of means of production and capitalist aims at the **maximization of profits or surplus value****
- *Capitalist pay only **the subsistence wage rate** while workers produce much beyond their subsistence**
- *This surplus value earned and **reinvesting this surplus** which gives birth to process of capital accumulation**

GROWTH OF CAPITALIST ECONOMY

- *The growth of national income and process of growth continue to take place**
- * Gross National Product = $C+V+S$**
- *Economic development depends upon surplus value**
 - *Rate of Surplus Value = $\frac{\text{Surplus value}}{\text{variable capital}} * 100$**
 - *Higher the rate of rate of surplus higher the degree of exploitation**
 - *Rate of profit is converted form of surplus value**
 - *Rate of profit = $\frac{S}{C+V} * 100$**
 - *Rate of profit is lower than the surplus value**

DESTRUCTION OF CAPITALISM

- × Seeds of destruction of capitalism inherent in the very growth of capitalism**
- × Every entrepreneur tries to compete out the other for maximization for profit**
- × As capitalism grows, there is increasing concentration of wealth in fewer hands, and rate of profit reduces. With the reduction in the rate of profits, accumulation of capital choked and the doom of capitalism becomes inevitable**



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