Marx's Capital: the Revolt against Classical Economics

Widodo, Tri

Graduate School of Economics, Hiroshima University of Economics, Hiroshima, Japan, Economics Department, Faculty of Economics and Business, Gadjah Mada University, Indonesia

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by
Tri Widodo
Graduate School of Economics, Hiroshima University of Economics, Hiroshima, Japan, and
Economics Department, Faculty of Economics and Business, Gadjah Mada University, Indonesia

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Abstract

This paper describes the general idea of Marxian economics, especially the Marx's *Capital,* and compares it with that of the classical economics. *First*, while the classical economics regards capitalist system as a part of the natural law, Marx, in contrasts, considers capitalist system as a stage of the transition process from the feudal economy in the past to the socialist economy in the future, where private property no longer exists. *Second,* while the classical economists argue that economic life can be regarded as the result of the harmony of interests between the various components of society, Marx, in contrast, considers the economic life as conflicts of interests between owners of property and workers.

Keywords: Marxian, Capital accumulation, Labor theory of value.
JEL: B12, B14.

1. Introduction

The modern development in economics has been greatly influenced by the economic phenomena such as unemployment, imperfect competition, inflation, economic growth and so on. The "classical" system and its *laissez-faire* ideology developed by Adam Smith (1723-1790) and his followers, such as Thomas Robert Malthus (1766-1834), David Ricardo (1772-1823), Jeremy Bentham (1748-1832) and Jean-Baptiste Say (1767-1832), are part of the generally accepted principles in modern economics (Fusfeld, 1972:11; 2002:3). However, Karl Max (1818-1883) and other socialists developed criticism against the existing industrial society where the principal ideology is *laissez-faire*. In the foreword of her book, Robinson (1964) argues:

> "The chief difficulty in learning from him arises from the peculiar language and the crabbed method of argument which he used, and my purpose is to explain what I understand Marx to have been saying in language intelligible to the academic economist." (p.v)

Indeed, the modern economics has many things to offer to the Marxists. Take an example, in the analysis of effective demand – the theory of employment – the modern economics provides a foundation for the study of the law of motion of capitalism, which was proposed but not fully developed by Marx.

One of the greatest works of Marx is *Das Kapital,* of which the first volume was published in 1867. After Marx died in 1883, the second and third volumes were edited by Friedrich Engels and published in 1885 and 1894, respectively[1]. Nowadays, Marxian economics is an interesting topic for research, since it is one major exception to the common current teachings in economics, as Fusfeld (1972) states:

> "Today, however, economics is the only social science with a body of theory which has gained almost general acceptance. It is true that there are many differences of opinion among economists, who sometimes joke about obtaining five different opinions on any issue from any four economists. There are many disputes among economists, too, but not about the fundamental principles of the science. They disagree on how to apply the principles, on what policies should be adopted in particular circumstances, and on judgments about the importance of various factors in particular situations.
> There is one major exception to this rule –the "Marxists," who consider Western economics to merely an ideological support for an **exploitative** system. They believe their own understanding of **capitalism** to be the correct one, revealing the faults which will finally cause the downfall of the Western system." (p. 10)

The aim of this paper is to describe the general idea of Marxian economics, especially Marx's *Capital*, and compare it with that of the classical (traditional orthodox) economics. The rest of this paper is organized as follows. Part 2 describes the main differences between the Marxian and the classical economics. Part 3 discusses the Marx's

[1] *Capital* Volume I was published by Glaisher in 1920; *Capital* Volume II was published by Swan Sonnenschein in 1907; *Capital* Volume III was published by Kerr in 1909 (Robinson, 1964:vi).

definitions on important concepts. The nature of capitalism is elaborated in Part 4. Some concluding remarks are presented in Part 5.

2. Marxian Versus Classical Economics

Historically, social, economic and political changes have influenced people's ways of thinking. The great political and social revolutions in the American colonies, later in France also, wiped away the last vestige of the European feudalism and the old aristocratic order (Sabine, 1963:455; Ekelund and Hébert, 1997:225). The changes caused by the war, revolution, population growth, new technology, and new political upheaval in Europe had created the classical economics. Adam Smith, Thomas R. Malthus, David Ricardo, Jeremy Bentham and Jean Baptiste Say are the founders of the classical economics. The collective contributions of the classical economists lay in having form an orthodox and accepted body of economic doctrine. The economic, social and political situations during the fifty years between 1775 and 1825, especially during the Industrial Revolution, gave rise to the modern socialism (Fusfeld, 2002:57). Meanwhile, the Great Depression in the 1930s characterized by the catastrophic unemployment had induced John Maynard Keynes (1883-1946) to suggest several economic policies, which became eventually very controversial among economists and politicians of that age (Fusfeld, 1972:95). Many people were obliged to recognize the miserable economic situations, which could not be remedied by the conventional classical economics. Moreover, they had to admit that the old economic ideas were not suited to the economy any more.

There are at least two main differences between the Marxian and the classical economics. *First*, the classical economists consider capitalist system as a part of the natural law, whilst Marx consider it as a passing stage in the transition from the feudal economy in the past to the socialist economy in the future (Marx, 1964:135; Fusfeld 2002:23, Robinson 1964:1). By the early years of the 18th century, political philosophers such as Richard Cantillon (1680?-1734), Francois Quesnay (1694-1774), Jacques Turgot (1727-1781) and others[2] had developed a theory of liberal democracy based on the principles of capitalism with its intellectual and practical focus upon the operation of free market. Adam Smith (1776) wrote in favor of a "system of natural liberty" in which self-interest is the driving force of economy, and it functions through a system of self-governing market as described by one of the very famous concepts in *The Wealth of Nations*[3] i.e. "invisible hand", which lies in the extension of *laissez-faire* ideology:

> "Every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interests, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectively than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them form it." (p. 423)

In addition, classical economists argue that capital is the great source of economic growth (Fusfeld 2002:44). Economic freedom resulted in great profits that became the

[2] See, for examples, Ekelund and Hébert (1997: 66-75), Sabine (1961:567), Cropsey (1963:569) and Williams (1999:409-420).
[3] The full title, as is well known, is *An Inquiry into the Nature and Causes of the Wealth of Nations*.

source of investment (capital accumulation)[4]. Meanwhile, modern socialism (Marxian) developed as a reaction to the industrial era when classical economics had also grown up (Cropsey, 1963:570; Fusfeld, 1972:54). The Industrial Revolution had caused massive social and economic transformation in England from the mid-18th to the mid-19th. Classical economics postulates that the causes for economic growth are industrialization, capital accumulation and higher productivity. To Marx, however, industrialization has implications different to classical economists. To Marx, it is only the process of constructing two different groups i.e. the capital-owners and exploited-workers.

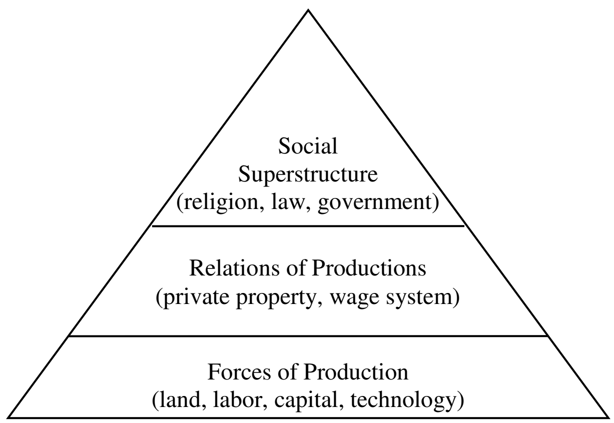


Figure 1. Marx's "Social Pyramid"

Source: Ekelund and Hébert (1997:232)

Second, classical economists consider economic life in terms of the harmony of interests between the various components of society, while Marx regards it in terms of a conflict of interests between the owners of property who do no work and the workers who own no property[5]. Marx believes that the rules of capitalist game are essentially static and consist of two types of relations i.e. property relations (relations between

[4] Robinson (1969:33) argues that the distinction between capital and income is rooted in moral ideas.

[5] Sloan (1973:2) mentions the two major groups: (1) the employers, the "entrepreneurs" of classical economics, the "capitalist" or "bourgeoisie" of Marx and (2) the subordinate salary and wage-earners, "labor", Marx's "proletariat".

people and things) and human relations (relations between people). The sum of these relations constitutes the economic structure of society. However, the structure might dynamically change. Marx then makes the theory of society as depicted in Figure 1. Forces of production consisting of land, labor, capital and technology are dynamic in term of quantity and/or quality as result of the changes in population, technological innovation, discovery, education, health and so on.

The conflicts of interest are further worsened by the institution of private property that ensures the splitting up of accumulated capital among different owners and thus the division between labor and capital. The dynamic forces of production will have conflict with the static relations of production. Once the conflict happens in a certain level, class struggle and revolution occur. The pyramid of society will fall from the top to the bottom. In Marx's preface to *A Contribution to the Critique of Political Economy*, this is clearly stated (as quoted also in Ekelund and Hébert, 1997: pp. 232-233):

> "The mode of production of material life determines the character of the social, political, and spiritual processes of life. It is not the consciousness of men that determines their existence, but on the contrary, their social existence that determines their consciousness. At a certain stage of their development, the material force of production in society come in conflict with the existing relations of production, or – what is but a legal expression for the same thing- with the property relations within which they have been at work before. From forms of development of the forces of production these relations turn into their fetters. Then comes the period of social revolution. With the change of the economic foundation the entire immense superstructure is more or less rapidly transformed.
> No social order ever disappear before all the productive forces, for which there is room in it, have been developed; and new higher relations of production never appear before the material conditions of their existence have matured in the womb of the old society….The bourgeois relations of production are the last antagonistic form of the social process of production-antagonistic not in the sense of individual antagonism, but of one arising from conditions surrounding the life of individuals in society; at the same time the productive forces developing the womb of bourgeois

society create the material conditions for the solution of that antagonism." (*Critique of Political Economy,* pp.20-21)

3. Several Marx's definitions

After comprehensive review of the classical economic literature and intellectual process of logical exclusion, Marx concludes that labor is the essence of all value[6]. Then, Marx argues that labor has to be rooted in something more essential than the market forces of supply and demand. It is reflected by the labor theory of value. A more serious Marx's critic, which is then known as "great contradiction"[7], is that if the exchange value of commodities is determined by the labor time they contain, how can this be reconciled with the empirically observed facts that the market prices of the commodities frequently differ from their labor values? In solving the valuation problem, Marx makes the following definitions[8]:

Constant capital (*c*)	=	charges on fixed capital (i.e. depreciation plus the cost of raw-material inputs)
Variable capital (*v*)	=	total wages paid to labor
Outlay (*k*)	=	cost of production (excluding profit), or *c*+v
Surplus value (*s*)	=	contribution of workers for which they are not paid, or excess of gross receipts over the sum of constant and variable capital
Rate of surplus values or rate of exploitation (*s'*)	=	ratio of surplus value to variable capital employed, or $s' = \left(\frac{s}{v}\right)$
Rate of profit (*p'*)	=	ratio of surplus value to outlay, or $p' = \left(\frac{s}{c+v}\right)$
Organic composition of capital (*O*)	=	ratio of capital to labor employed in production $O = \left(\frac{c}{v}\right)$

[6] Marx (1958:230).
[7] See, for examples, Cropsey (1963:713) and Ekelund and Hébert (1997:239).
[8] SeeRobinson (1964:pp.6-9), Ekelund and Hébert (1997:239) and Chapter IX of *Das Capital* Volume I on the rate of surplus-value (Marx 1958:pp.212-230) for the detailed explanation.

Marx breaks down the net product of industry into two parts i.e. *variable capital* (v) and *surplus* (s). Basically, variable capital is wages bill, meanwhile surplus covering net profit, interest and rent is the excess of net product over wages. The difference between gross and net product is *constant capital* (c), which consists of plant and raw material. It is *constant* in the sense that it adds no more to the value of output than it loses in the process of production, new value added being due to the labor-power purchased by variable capital as stated in the Marx's *Capital*:

> "The labourer adds fresh value to the subject of his labour by expending upon it a given amount of additional labour, no matter what the specific character and utility of that labour may be. On other hand, the values of the means of production used up in the process are preserved, and present themselves afresh as constituent parts of the value of the product; the values of the cotton and spindle, for instance, re-appear again in the value of the yarn. The value of the means of production is therefore preserved, by being transferred to the product. This transfer takes place during the conversion of those means into a product, or in other words, during the labour-process. It is brought about by labour; but how?" (*Capital,* Vol. I, p.199)

The total product is then formulated as $c+v+s$. Marx carries out his argument in terms of three ratios i.e. the rate of exploitation, $\left(\frac{s}{v}\right)$; the organic composition of capital $\left(\frac{c}{v}\right)$; and the rate of profit, $\left(\frac{s}{c+v}\right)$ (Marx 1958:218). The first ratio is unambiguous, but the other two ratios bring some puzzlement (Robinson, 1964:7). The rate of exploitation, $\left(\frac{s}{v}\right)$, indicates the share of labor in the net output. Marx argues that the working day can be break down into two i.e. the time that a man works for himself and the time that he works for the capitalist. For instance, if $\left(\frac{s}{v}\right)$ equals 3/2 and the working day is 10 hours, a man works 4 hours for himself and 6 hours for his employer.

The organic composition of capital $\left(\frac{c}{v}\right)$ and the rate of profit $\left(\frac{s}{c+v}\right)$ bring some puzzlement, because they are involved with the stock of capital employed, not with the depreciation of capital (flow). However, the puzzlement can be avoided, if the symbol *c, v* and *s* only for rates per unit of time of depreciation and raw material cost, wages and profit, and speak of the organic composition of capital, not as $\left(\frac{c}{v}\right)$, but as capital per man employed.

Marx makes several assumptions: *first*, capital is always used to capacity; *second*, the capacity output of a given amount of capital is rigidly determined by technical conditions; *third*, the rate of interest has no influence on the capital structure, and the rate of real wages affect it only indirectly, through its influence on technical progress. The assumptions create an extreme simplification of a very complex problem and they are somewhat crude from academic point of views (Robinson, 1964:8).

4. The Nature of Capitalism

In 1844, Marx completed several manuscripts, which were certainly intended to be a major part of a forthcoming book. A full edition of these extant works was published in 1932 under the title *Economic and Philosophic Manuscripts of 1844.* The main theme of the *Manuscripts* is that history under modern capitalism is the story of alienation in people's lives as producers. And, the communism achieved through a "revolution" against private property is the final escape from alienation (Cropsey, 1963:703; Ekelund and Hébert, 1997:233). The writing of *A Contribution to the Critique of Political Economy* was started in 1858 and finished in the following year. The first volume of *Capital* appeared in 1867, but he died before the second and third volumes were published. The second and third volumes were then published under the editorship of Friedrich Engels. In *Capital,* Marx sets out to examine the production and distribution of commodities. He started his attack on capitalism with the labor theory of value.

4.1. The labor theory of value

Marx (1958:230) argues that *labor* is the essence of all value. It is reflected in the labor theory of value. He has to consider two kinds of problems that David Ricardo faces i.e. *first,* if labor is the essence of exchange value, what is the exchange value of labor?; *second,* how is the value of goods produced by machinery determined? The answer for the first question is a theory of wages; and the answer for the second is a theory of capital. Morishima (1973:11) states that there seem to be two definitions of value in Marx's *Capital*:

> "All that these things now tell us is, that human labour-power has been expended in their production, that human labor is embodied in them. When looked at as crystals of this social substance, common to them all, they are-Values." (*Capital,* Vol. I, p.38).
> "We see then that which determines the magnitude of the value of any article is the amount of labour socially necessary, or the labour-time socially necessary for its production." (*Capital,* Vol. I, p.39)

The classical economics is comprised of two theories of exchange value i.e. the short-run determination of price by supply and demand, and the long-run theory of "natural price" or cost of production. In *Capital*, Marx argues that the contradiction exists in this. He recognizes that under competitive market, prices do not change at random but must fluctuate around a certain point, which meant, to Marx, labor costs. Thus he refers to value as being resolved not by the "law of the market" (supply and demand interaction), but by production itself. This is clearly noted by Robinson (1964):

> "All this differs from orthodox theory in only one respect, but that is an important one. There is no tendency to long-run equilibrium and the average of profit is not an equilibrium rate, or a supply price of capital. It is simply an average share in the total surplus which at any moment the capitalist system has succeeded in generating." (pp. 11-12)

Marx strongly considers that the rate of exploitation must be written as $\left(\frac{s}{v}\right)$, not as $\left(\frac{s}{c+v}\right)$. The two formulas show precisely the same situation, but they imply different attitudes to the capitalist process. The ratio $\left(\frac{s}{v}\right)$ implies the 'real fact' of the 'exclusion of the laborer from the product' of his wok, while the ratio $\left(\frac{s}{c+v}\right)$ shows the 'false semblance of an association', in which laborer and capitalist divide the product in proportion to the different elements which they respectively contribute towards its formation (Marx, 1958:533).

4.2. The laws of capitalist motion and the end of capitalism

A major different approach from classical economics is contained in Marx's emphasis on the technological change as the driving force of his social dynamics as depicted by Figure 2. He notes several laws inherent in capitalism i.e. the law of accumulation and the falling rate of profit, the law of increasing concentration and the centralization of industry, the law of a growing industrial reserve army, the law of increasing misery of proletariat, the law of crises and depressions. *First,* in the law of accumulation and falling rate of profit, it is believed that under capitalism, all businessmen try to get more surplus value, *s*, in order to increase their profits. As a result, capitalists seek out capital-intensive production methods in order to maximize profits. They attempt to substitute capital for labor. Marx in *Capital* states:

> "Machinery produces relative surplus-value; not only by directly depreciating the value of labour-power, and by indirectly cheapening the same through cheapening the commodities that enter into its reproduction, but also, when it is first introduced sporadically into an industry, by converting labour of a higher degree and greater efficacy, by raising the social value of the article produced above its individual value, and thus enabling the capitalist to replace the value of a day's labor power by a smaller portion of the value of a day's product." (*Capital,* Vol. I, p.406)

Marx's law of the falling tendency of profits consists simply in the tautology: when the rate of exploitation, $\left(\frac{s}{v}\right)$ is constant, the rate of profit $\left(\frac{s}{c+v}\right)$ falls as capital per man increases. Assuming constant periods of turn over, so that $c+v$ measures the stock of capital: when $\left(\frac{s}{v}\right)$ is constant and $\left(\frac{c}{v}\right)$ is rising, $\left(\frac{s}{c+v}\right)$ is falling.

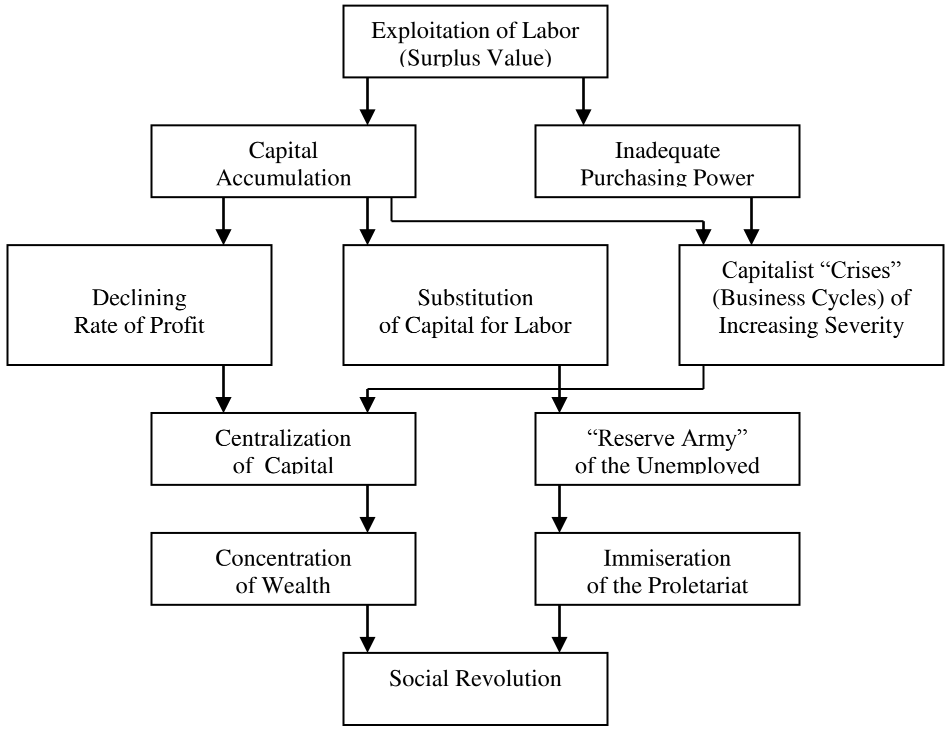


Figure 2. Schematic Diagram of Marx's Theory of Capitalist Development

Source: Fusfeld (2002:67)

Second, in the law of increasing concentration and the centralization of industry, it is considered that the drive for profit leads to competition among capitalists. They would continuously substitute capital for labor to get more efficient production process. The most efficient producer would survive. In contrast, the less efficient firms would be driven out of business. As a result, industry would become more and more centralized and market power would be increasingly concentrated in less number of producers. *Third,* in the law of growing industrial reserve army, it is mentioned that the dynamic change, which is followed by capital-labor substitution and technological innovation, has created unemployment.

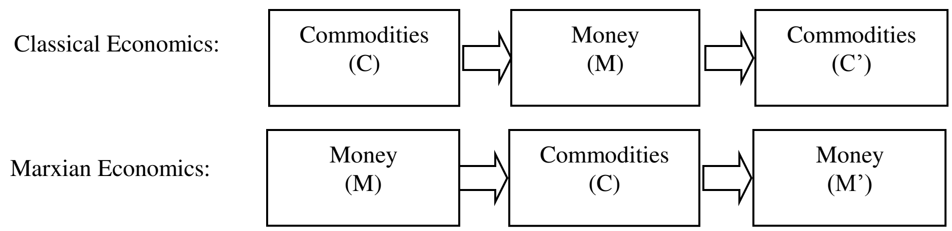
Fourth, in the law of increasing misery of proletariat, it is believed that capitalists generally seek to offset a falling rate of profit by lowering wages, imposing longer workdays, introducing child and female labor. In *Capital*, Marx states that labor power, like other commodities, tends to be sold at its value, and the value of labor-power is the labor-time necessary to produce the means of subsistence of the workers, and of the children who will replace them. Marx clearly states:

> "The reproduction of a mass of labour-power, which must incessantly re-incorporate itself with capital for that capital's self-expansion; which cannot get free from capital, and whose enslavement to capital is only concealed by the variety of individual capitalist to whom it sells itself, this reproduction of labour-power forms, in fact, an essential of the reproduction of capital itself. Accumulation of capital is, therefore, increase of the proletariat." (*Capital,* Vol. I, pp.613-614)

Fifth, in the law of crises and depressions, when the capitalists continue substituting capital for labor, the unemployment increases and wages decrease. This then causes periodic crisis. The falling average rate of profit would signal the impeding crisis. There would be a tendency toward permanent depression because the industrial reserve army gets larger as the crisis become more severe.

4.3. Transformation of money into capital

According to Marx, a value can be manifested through money, as a 'money-mediated' form of appearance registering the general exchangeability of commodities. Figure 3 illustrates the different consideration on money between the classical economists and Marx. According to Marx, the classical economists consider money as medium of exchange. Commodities (C) are sold for money (M), which is then used to purchase other commodities (C'), symbolically C-M-C'.



Source: the author's own illustration as described by Marx (1958:pp. 146-155)

Figure 3. Production and Exchange: Classic versus Marx

In the first chapter of Volume I of *Capital*, Marx considers the context of Aristotle's analysis of money, in which the distinction between money as the medium of circulation of commodities (in accordance with the formula C-M-C' which he himself coined) and its function as an end in itself (in accordance with the Aristotelian formula: M-C-M') was first introduced (Milios *et al*, 2002:39). Marx argues that in a capitalist economy, money (capital, M) is accumulated to purchase (or produce) commodities (C), which are then sold for an even greater sum of money. In symbol, it is M-C-M', where M' is M plus profit (surplus value) that then leads to the termination of the economic system due to the social revolution. Marx clearly states:

> "The simplest form of the circulation of commodities is C-M-C, the transformation of commodities into money, and the change of the money back again into commodities; or selling in order to buy. But alongside of this form we find another specifically different form: M-C-M, the transformation of money into commodities, and the change of commodities back again into money; or buying in order to sell. Money that circulates in the latter manner is thereby transformed into, becomes capital, and is already potentially capital." (*Capital,* vol. I, pp.146-147)
> "…The exact form of this process is therefore M-C-M', where M'=M+ΔM= the original sum advanced, plus an increment. This increment or excess over the original value I call "surplus value." The value originally advanced, therefore, not only remains intact while in circulation but adds to itself a surplus-value or expand. It is this movement that converts it into capital." (*Capital,* vol. I, p.150)

4.4. New society

According to Marx, what will the 'new' society post-capitalist be? In *The Communist Manifesto,* Marx describes the general characteristics applicable to the 'new' society post-capitalist i.e. elimination of property in land and application of all rents of land to public purposes; a heavy progressive or graduated income tax, eradication of all right of inheritance; elimination of the property of all emigrants and rebels; centralization of credit in the lands of the state, by means of a national bank with state capital and exclusive monopoly; centralization of the means of communication and transport in the hands of the state; extension of factories and instruments of production owned by the state, the bringing into cultivation of wastelands, and the improvement of the soil generally in accordance with a common plan; equal liability of all the labor, establishment of industrial armies, especially for agriculture; combination of agriculture with manufacturing industries, gradual abolition of the distinction between town and country by a more equitable distribution of the population over the country; free education for all children in public school, abolition of children's factory labor in its present form, combination of education with industrial production, etc (Cropsey, 1963:717-722; Sabine, 1963:797; and Ekelund and Hébert, 1997).

Although Marx does not describe in detail about the nature of the post-capitalist world, he clearly mentions, though very briefly in the page 135 of his book *Economic and Philosophic Manuscripts of 1844*, the "new" society is to be communist one in which private property will no longer exist. For convenience's sake, let us quote in the following:

> "… communism as the *positive* transcendence of private *property*, or *human self-estrangement,* and therefore as the real *appropriation of the human* essence by and for man; communism therefore as the complete return of man to himself as a *social* (i.e., human) being – a return become

> conscious, and accomplished within the entire wealth of previous development. This communism, as full developed naturalism, equals humanism, and as fully developed humanism equals naturalism, it is the *genuine* resolution of the conflict between man and nature and between man and man – the true resolution of the strife between existence and essence, between objectification and self-confirmation, between freedom and necessity, between the individual and the species. Communism is the riddle of history solved, and it knows itself to be this solution." (*Manuscripts,* p. 135)

5. Concluding Remarks

This paper describes the general idea of Marxian economics, especially the Marx's *Capital,* and compares it with that of the classical economics. *First*, while the classical economics regards capitalist system as a part of the natural law, Marx, in contrasts, considers capitalist system as a stage of the transition process from the feudal economy in the past to the socialist economy in the future, where private property no longer exists. *Second,* while the classical economists argue that economic life can be regarded as the result of the harmony of interests between the various components of society, Marx, in contrast, considers the economic life as conflicts of interests between owners of property and workers.

Marxism, as an idea, has been an important one rooted in the real social and political situations, especially real failings of industrial capitalism such as greater income inequality, greater disparity between the rich and the poor, more serious unemployment problems, etc. The Marxian idea toward the future society seemed promising at the time of birth of the idea. It certainly depicts one aspect of current modern world as Robinson (1964) emphasizes in the following sentences:

> "In general, <u>the nightmare quality of Marx's thought</u> gives it, in this bedeviled age, an air of greater reality than the gentle complacency of the orthodox academics. Yet he, at the same time, is more encouraging than they, for he

releases hope as well as terror from Pandora's box, while they preach only the gloomy doctrine that all is for the best in the best of all *possible* worlds. But though Marx is more sympathetic, in many ways, to modern mind, than the orthodox economists, there is no need to turn him, as many seek to do, into an inspired prophet. He regarded himself as a serious thinker, and it is as a serious thinker……" (pp. 4-5) (the underline is drawn by the author of this paper)

In my opinion, Marx had made great contribution in revolutionarily changing policy aspects of classical economics and in eventually giving birth to welfare economics, hence modern welfare states[9].

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[9] Fusfeld (1972:62;2002:74)

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