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A MARXIAN RECONCEPTUALIZATION
OF INCOME DISTRIBUTION

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INTRODUCTION

For neo-classical economics, the term income distribution refers to concepts altogether different from what the term means in Marxian economics. We seek to specify a Marxian notion of income distribution and to show how and why neo-classical economists' "data" on changes in what they mean by income distribution can have little relevance for Marxian analyses. To extract what relevance they may have requires far reaching conceptual and calculational adjustments - not always possible with available information - which Marxists have often overlooked. Our focus is limited to exclusively capitalist class processes; other kinds of class processes are not here considered. Some initial comments on neo-classical theory are intended to prepare, by way of contrast, the presentation of a Marxian theory of income distribution.

The neo-classical universe approaches income distribution first as a matter of "factors of Production" obtaining shares of output equivalent to their marginal "contributions" toward that output. The services (or factors) of labor, land and capital are combined in enterprises to generate output given available technologies. The products are socially useful, as determined by market demand for them. That usefulness is their value. That value's distribution among the services combined in production constitutes the distribution of income. This neo-classical universe is harmonious except for possible market imperfections - usually externally imposed - in either factor or final product markets. This is, moreover, a use-value universe; the overarching goal of production is wealth understood as use-values (i.e. products valued according to their use to market buyers).

Once the entirety of use-value outputs is distributed as income to factors, neo-classical economics can turn its attention to how different individuals obtain their specific incomes. The approach here is to inquire of each individual as to which factors he/she has chosen (based on personal preferences) to contribute to use-value production. Thus a personal income distribution is derived from a factor distribution of income. Nor is this approach basically altered by the extensive literature in neo-classical economics which seeks to clarify just what the firm does. Whether that be the contribution of the services of entrepreneurship or information gathering or uncertainty management, the idea remains the same: income is a share of use-value output received as a reward for the contribution of the factor/service in question.

In contrast, a Marxian class analysis proceeds very differently. Marxian theory's entry point is neither human preferences nor marginal productivities. Rather, Marxian theory begins by the insertion into the discussion of the class process, which is completely absent from neo-classical theory. The production/appropriation of surplus value and the distribution of the surplus value - i.e., the fundamental and subsumed class processes - have literally no existence in neo-classical theory, in the "reality" which that theory seeks to comprehend. By its focus on class processes absent from neo-classical theory, Marxian theory proceeds to radically reconceptualise the concepts of income and distribution of income inherited from neo-classical discourse.

Marxian class analysis of income distribution begins with the recognition that incomes - received flows of values - can occur either within class or non-class processes. The specification of an income as a class income is then further differentiated into fundamental and subsumed class incomes. Our elaboration of an analysis of income flows in terms of fundamental, subsumed and non-class incomes begins from and extends Marx's critique (in Capital, 3) of the "Trinity Formula" approach to income distribution exemplified in Smith, Ricardo and other classical political economists.

A MARXIAN CONCEPT OF INCOME DISTRIBUTION[1]

1. Fundamental class incomes

Flows of values are received by occupants of both capitalist fundamental class positions. In other words, the capitalist fundamental class process produces income flows to both productive laborers and capitalists: v + s. We shall designate such flows of value as fundamental class incomes.

It is worth noting here that, as Marx stresses repeatedly, there is a crucial difference between the two fundamental class incomes. The income flow to the productive laborer, v, involves an exchange of equivalents: the commodity labor power is sold in exchange for the fundamental class income flow. In contrast, the income flow to the capitalist, s, involves no exchange: the capitalist receives the surplus value for nothing.

2. Subsumed class incomes

Flows of value are received by the occupants of subsumed class positions who obtain distributed shares of appropriated surplus value. The capitalist subsumed class process produces income flows to the providers of conditions of existence who obtain such shares. We shall designate these flows subsumed class incomes, denoted as $\sum$ssc. Furthermore, we may note that subsumed class incomes may, but certainly need not, occur together with an exchange of equivalents. Thus, for example, the distribution of appropriated surplus value to managerial personnel produces subsumed class income for them and in exchange they provide an equivalent value of unproductive labor power to the capitalist who distributes the surplus value.[2] On the other hand, the interest paid by such a capitalist to a bank for a loan produces a subsumed class income to the bank for which no equivalent value is exchanged. The same absence of equivalent value exchanges holds for the subsumed class incomes obtained by common stock holders, landowners, monopolists and state functionaries who provide their respective conditions of existence for the capitalist fundamental class process.

3. Non-class incomes

Flows of value are received by occupants of positions within certain non-class processes. In other words, to receive an income does not require the occupation of either class position, fundamental or subsumed. We shall designate such flows of value as non-class incomes: $\sum$nc.

The specific non-class processes that generate non-class incomes may, but certainly need not, be commodity exchanges (here presumed to be always exchanges of equivalent values). Thus, for example, the sale of labor power to anyone other than capitalists produces an equivalent value receipt of non-class income. It is non-class income because this recipient occupies neither a fundamental nor a subsumed class position in obtaining this value flow. In this case, unproductive labor power is exchanged for non-class income.

On the other hand, non-class income need not occur within an exchange process. For example, a loan to anyone other than a capitalist produces an interest flow to the lender which is a non-class income to that lender. The same holds for the holder of common stock in enterprises that do not appropriate surplus value from their employees, for the landlord who rents to other than capitalists, for the monopolists who sell to other than capitalists and for the state that taxes other than capitalists. Their respective dividends, rents, monopoly price differentials (the excess over commodity values) and taxes constitute non-class incomes which accrue without an exchange of equivalents.

Combining fundamental, subsumed and non-class incomes, we can propose a general formulation of the class analysis of income distribution. Any recipient's income can be expressed as

$$Y_i = v_i + s_i + \sum ssc_i + \sum nc_i \qquad (1)$$

Depending on the particular class and non-class positions occupied by each recipient, particular terms on the right-hand side of equation (1) may be zero. What the equation permits is the precise breakdown of any recipient's total income into its fundamental, subsumed and non-class components.

This approach may be applied - with interesting results - whether the particular recipient is an individual person or an enterprise (deploying productive or unproductive capital) or a state or a church or a family, etc.

In all cases, what is produced is a Marxian class analysis of the recipient's income, literally the class distribution of the recipient's income.

The concept of income distribution produced so far is not only different from that of the neo-classical approach, but also different from the one produced by Marx in Capital, 3. Marx's object there was to show that the already appropriated surplus value was distributed in the form of income shares to different occupants of subsumed class positions - a profit share ("profit of enterprise plus interest") to capital and a rental share ("ground rent") to landed property.[3] His point was not to explain the class analytics of an individual's class and non-class incomes, as in this paper, but rather to show that productive labor and not independent factors, land and capital, created income for his landlords and capitalists. The incomes of the merchant-capitalist, owning-capitalist, managing-capitalist, and money-lending-capitalist, together with the income of the landlord equaled the surplus value already appropriated by the industrial capitalist. In this regard, new value added, in Marx's words "the value of the annual product" produced by productive labor, must be equal to either the sum of surplus value and the value of labor power or the sum of subsumed class receipts and the value of labor power.[4] If the latter, then Marx's rendition of the trinity formula follows: the value of the net annual product equals the sum of the three components, the value of labor power ("labor-wages") plus the profits of enterprise and interest ("capital-profits") plus ground rent ("land-ground rent").[5]

A class approach to an individual's income is the object of this paper. Thus for any individual we count in equation one both the receipt of surplus value and of subsumed class payments as different class incomes despite Marx's volume 3 demonstration that distributed income shares to occupants of subsumed class positions equal the already created surplus value income of the industrial capitalist. This form of "double-counting" of income followed in this paper poses absolutely no problem whatsoever. Indeed, it is required if we are to calculate correctly multiple class incomes. In contrast, Marx's different approach and object in volume 3 required him to argue a very different point: since surplus value equals subsumed class revenues, only one of these income categories could be added to the value of labor power to derive the value-added income total for the society. In this way he was able to ridicule the Classical economists notion (and we might add the current neo-classical one as well) that land and capital were independent (i.e., independent of productive labor) sources of rent and profit income.

A MARXIAN CRITIQUE OF "WAGES" AND "PROFITS"

What this formulation suggests is the problematisation of the categories of "wages" and "profits" as they are usually articulated within both neo-classical and many other Marxian arguments. We may begin to demonstrate this problematisation by focusing upon wages. Whether this is understood as the sale of labor services (as in neo-classical economics) or the sale of labor power, the term as such is critically incomplete and hence imprecise for purposes of Marxian class analysis. Any individual's wages - and a fortiori any aggregate measure of wages in a society - may include fundamental and/or subsumed and/or non-class incomes. The sale of labor power may produce any or all of these different -

in class terms - incomes in an infinite variety of combinations.

Consider the aggregate measures of wages available from existing statistical compilations in the United States. Because they are not constructed with any reference to the class differentiations within the concept of wage, they cannot be used to draw conclusions about the class processes of the society. For example, a change in wages does not permit any particular conclusion regarding either the rate of exploitation (s/v) or the value rate of profit (s/c+v). Nor does the absence of a change in aggregate wages, since such an absence could mean simply that an increase in the fundamental class income component of wages was offset by decreases in the subsumed class or non-class components, etc.

A parallel sort of problematisation of the category of profits follows from a class analysis of income distribution. Enterprises have incomes, in our formulation, comprising fundamental, subsumed and non-class components. Typically, in both neo-classical and Marxian discussions, the income flows to enterprises have certain deductions made from them to arrive at some notion of "net" profits to the enterprise. Setting aside the theoretical rationales offered for such deductions, it is the "gross" income flows themselves that are problematised in our approach. An enterprise's income may rise, then, together with a rise or fall or no change in the surplus value it may be appropriating from its productive laborers. No inference from changes in profits to changes in the class distribution of its income can be drawn in analysing enterprises, unless the precise class breakdown of its income is available. Yet such breakdowns are not available since they have not been utilised in constructing either the data on individual firm's profits nor on aggregate measures of profits.

Finally, such categories of income as interest, rent or taxes display similar complexities. Each of these may comprise both subsumed class and non-class components. Without precise measures of these components, there exists no way to connect such categories of income to the class relations of the capitalist social formation.

We may state the conclusions of this critique as follows:

$$W = v + \sum ssc + \sum nc \qquad (2)$$

$$P = s + \sum ssc + \sum nc - X \qquad (3)$$

where W is a variable for wages and P is a variable for profits (the variable X denotes the deductions from enterprise incomes made to arrive at the "net" notion of profits, P). Equations (2) and (3) are, of course, simply special cases of the basic Marxian class analysis of income summarised in equation (1).

Using equations (2) and (3), we can draw critical attention to a widely used concept of income distribution which underlies statistical compilations and their interpretations both inside and outside the Marxian tradition:

$$\frac{P}{W} = \frac{s + \Sigma\ ssc + \Sigma\ nc - X}{v + \Sigma\ ssc + \Sigma\ nc} .$$

Our class analysis draws attention to the fact that this measure aggregates and thus misses the important fundamental-subsumed-non-class distinctions. Thus, for example, this measure of income distribution may fall while the rate of exploitation $(\frac{s}{v})$ rises. So a rise in the rate of exploitation can be entirely consistent with a change in the distribution of income against "capital" and in favor of "workers".

CONCLUSIONS

Discussions of the distribution of income couched in terms of wages, profits, interest, rent, taxes, etc. cannot be directly applied to or integrated within Marxian class analysis. Nor will minor calculational adjustments solve the problem of such terms. What is at stake are different concepts of economic process and structure. Empirical elaborations of Marxian class analysis that use existing statistical sources of data on wages, profits, etc. must begin by radically transforming those data into the sorts of class-analytical income components specified above. Otherwise, the attempts to draw Marxian analytical conclusions from movements in those data are logically unwarranted and unacceptable. Yet the dominant practice within Marxist economics is unacceptable in just this regard: notwithstanding what amounts to lip-service to the conceptual difficulties in adapting the usual income-distributional data to Marxian value categories, most Marxists have not even begun to specify what all those difficulties are, let alone propose solutions to them.[6] This paper is an initial effort to at least theorise the specific Marxian class analysis of income distribution and indicate its differences from neo-classical categories and data.

Some implications of our formulation may serve to suggest the importance of a Marxian specification of income distribution. The *Capital*, *3*, discussion of a tendency for profit rates to decline concerns the value profit rate, s/c+v. Without a radical transformation of existing data on aggregate profit rates (whether or not broken down be sector or industry or firm) according to the class-non-class categories developed above, it is not possible to infer either the existence or absence of this tendency from movements in the data. Without a specification of the particular pattern of class and non-class incomes flowing to American workers, it is not possible to specify the consequences of changes in wage-rates upon such worker's total incomes. Constancy of measures such as the relative income shares of "labor" and "capital" may well mask important offsetting shifts between class and non-class incomes which would be crucial for the purposes of Marxian social analysis.

Neither thc theoretical exploration nor the empirical construction of usable data for a consistent Marxian class analysis of income distribution in capitalist social formations is in an adequate state. The theoretical elaboration barely begun here is intended to enable and stimulate the remedies required by this analytical situation. At the very least, we hope to inhibit the continued abuse of non-Marxian concepts and data constructions by Marxists and shift the terrain of our work onto the surer footing of class-analytical formulations of income distribution.

FOOTNOTES

1. For income analysis purposes, the revenues generated by the sales of capitalist commodities (no other commodities are considered given our assumption of no class processes other than the capitalist) are differentiated exhaustively into variable capital and surplus value. Double counting is avoided by disregarding constant capital which is presumed to be exactly replaced each period. Moreover, no problem of gross vs. net income is required in this approach. We presume that incomes received are in turn expended generally to secure the conditions of existence of the income flows. Thus, productive laborers who obtain the value of their labor power, v, expend it on commodities to thereby secure the conditions of their existence as sellers of their productive labor power. Similarly, recipients of surplus value, the capitalists who appropriate s, expend this value in securing their conditions of existence as appropriators. We term these expenditures as subsumed class payments. The possibility that all income will not be so expended is disregarded here for ease of exposition of the basic analytical argument. Concrete analyses would always have to attend to such possibilities.

2. The distribution of surplus value to purchase additional variable capital - the accumulation of capital which is another condition of existence of the capitalist fundamental class process - poses an interesting question regarding the income received by the seller of such additional productive labor power. On the one hand, such income qualifies as fundamental class income as per our discussion. On the other hand, it is also subsumed class income by virtue of its being a distributed share of surplus value. We propose to designate such income as both fundamental and subsumed. Thus, the inclusion of such double-income in our analysis of income distribution will serve to indicate the extent of capital accumulation and integrate in into the class analysis of capitalist income distribution.

3. Marx, *Capital*, 3, New York: International Publishers, 1977, p. 821.

4. Marx, *ibid*., p. 834.

5. Marx, *ibid*., p. 814.

6. Even those few Marxist economists concerned to explore the disjunction between value analysis and the usual empirical measures of income distribution have made little progress. Erik Olin Wright (*Class, Crisis and the State*, London: New Left Books/Verso, 1979, pp. 126ff and especially pp. 150-153) gets so far as to recognise that wages include the receipts of unproductive as well as productive laborers, but he misses certain non-class elements of wages as well as most of the non-class and subsumed class components of profits. In short, his approach is very incomplete and crude; it misses the basic dichotomy between Marxist class analysis and the data of neo-classical discussions of income distribution. Similarly partial and incomplete are the empirical studies of Shane Mage *The Law of the Falling Tendency of the Rate of Profit*, Unpublished PhD Dissertation, Columbia University, 1963) and Joseph Gillman (*The Falling Rate of Profit: Marx's Law and its Significance to Twentieth Century Capitalism*, London: Dobson, 1957). They both apparently think that the only adjustment to neo-classical income distribution data needed is an accounting for unproductive labor and its income stream. That done, they proceed to use the adjusted data to "verify" Marxist theory committing all the errors discussed in the text. So do A. Glyn and R. Sutcliffe (*British Capitalism, Workers and the Profit Squeeze*, London: Penguin, 1972) who work with capital and labor shares on the aggregate social level. Finally, Ernest Mandel throws all hesitations to the winds in making manufacturing industry profit the residual after constant capital and all wages and all salaries have been deducted from industry revenues. Using data from Joseph Steindl and Simon Kuznets, Mandel then uses this notion of profits (which contains, as we have shown, both subsumed and non-class income components) to directly confirm Marx's *Capital*, 3, discussion of the tendency of the value profit rate to fall (*Marxist Economic Theory*, Vol. 1, Trans. by Brian Pearce, New York and London: Monthly Review, 1968, pp. 166-167.)

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