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Adam Smith and Karl Marx Modern political economic theory and philosophy can be greatly attributed to the works of two men who seemingly held polar opposite views on the subject. Adam Smith, a Scottish philosopher, published his most well known work *An Inquiry into the Nature and Causes of the Wealth of Nations* in 1776 and is most often associated with the ideas and principles of the political economic system known as Capitalism. At the other end of the spectrum is Karl Marx; the German philosopher most often associated with Communism and the author (or co-author) of *The Communist Manifesto*.

This paper seeks to discuss the core differences in their respective political economic philosophies with regards to what economic value is and what the role of government should be in their versions of political economy. This will conclude with the argument that while Smith's work had laid the foundation for modern economic philosophy, it was Marx who would ultimately leave the most significant impression upon the world with his revolutionary ideas. *An Inquiry into the Nature and Causes of the Wealth of Nations* (commonly abbreviated as *The Wealth of Nations*) is considered to be the first full treatment on the study of Economics.

This work essentially lays the foundation for the economic system known as Capitalism. Interestingly enough, Capitalism was a term first brought into the public debate, somewhat pejoratively, by Karl Marx himself in describing a "capitalist" as a private owner of capital or the means of production. ("Capitalism" (Wikipedia), 2008). A consensus definition of this idea is an economic system based on private individual ownership of property in which the distribution of goods is determined freely by competing market forces

and investments are made by individuals. (“ Capitalism” (Merriam-Webster), 2008).

In a Capitalist society, individuals are free to own property and invest their capital in the pursuit of profit with relatively limited influence or barriers from the government. The Wealth of Nations was organized into five books of several chapters each. The first two books examine the fundamentals of the market system and include explanations relating to the role of labor, the nature of capital and markets, and the motives people have for entering into the market system. The third book is mostly an historical examination of the economics in ancient societies.

The fourth book is the core of Smith’s argument for the capitalist society and it in these chapters that Smith lays out the core arguments for the limited role of government that is required for long term economic success. The fifth book deals primarily with government spending, revenues and taxation. The Communist Manifesto was much more a call to action than it was a treatise on economics and is a much shorter work than Smith’s The Wealth of Nations. Marx also published a very thorough (and denser) economic examination known as Das Kapital in 1867.

The conclusions reached in that and other works would underpin the concepts found in The Communist Manifesto. It is not inaccurate to say that Communism is in many ways the opposite of Capitalism. In The Communist Manifesto, Marx and co-author Friedrich Engels listed 10 attributes of an ideal Communist society. The first one lays out the primary condition: “ Abolition of property in land and application of all rents of land to public

purposes. ” (Marx & Engels, 2006, p. 32) This effectively describes state-ownership and control of all capital and the means of the production made for the benefit of all in a classless society.

Communism espouses the idea that the economy should function for the greater good of all society and not merely act as a tool to enrich the ‘bourgeois’ or ruling classes. As the title would indicate, The Communist Manifesto lays out the purpose and reasoning for the existence of the Communist party that was developing across Europe in that time. In the prologue, Marx and Engels state the books purpose: It is high time that Communists should openly, in the face of the whole world, publish their views, their aims, their tendencies, and meet this nursery tale of the Specter of Communism with a Manifesto of the party itself. Marx & Engels, 2006, p.

2) The chief disagreement between Capitalists and Communists is who or what is entitled to ownership and the means of production. In chapter one of the second book of The Wealth of Nations, Smith defined capital as the stock (read: assets or money) that a person does not immediately consume for which the owner expects to derive a future profit. (Smith, 1909) This of course implies that the individual has possession and ownership of the capital item in the first place. Marx bestows a social aspect upon what capital is in The Communist Manifesto. Marx stated that capital is a “ collective product? nly by the united action of all members of society, can it be set in motion. Capital is therefore not a personal, it is a social power. ” (Marx & Engels, 2006, p. 23) In other words, capital belongs to all of the people that are needed to not only produce it, but to provide a reason for its value. One thing that Marx and Smith seems to have agreed upon is something

economists call the Labor Theory of Value. While they would ultimately come to different conclusions on the use of the value, the basic assumption is this theory is that value is ultimately derived in an object from the labor necessary to produce it. “ Labor Theory”, 2008) In chapter 5 of book I of *The Wealth of Nations*, Smith argues that “ the real price of everything? is the toil and trouble of acquiring it. ” (Smith, 1909, p. 36) Smith distinguishes this from the nominal value of an item that can vary based on market forces; he holds that the real value is constant in relation to the labor that it used in its production. Smith argues in the following chapter that there are three components to the price of an item: the labor needed to produce it, the “ rent of the land” or resources needed to make it, and the “ profit of stock” that compensates the investor for risking his resources.

In *Das Kapital*, Marx also recognizes the labor component of any item in the first chapter. He states that any commodity has a use-value and an exchange value that is derived from the labor needed to produce it. (Marx, 2000) Marx however viewed the “ profit of stock” as the ability of the capitalist to exploit the wage laborers out of the surplus value of the things they create because of their control over the means of production. The role of government in relation to the economic system is a central theme of how ultimately successful the economic system would become.

One of Smith’s core arguments to the success of capitalism is summarized in his most famous metaphor of the “ invisible hand” found in Chapter 2 of Book IV in *The Wealth of Nations*: 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,
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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 effectually than when he really intends to promote it. (Smith, 1909, p. 351-352) Smith argued that in a fair and free market economic system, producers will act in their own self-interest to maximize their profits. As profits increased, competitors would come about seeking to obtain a share of the profits, and would thus drive down prices through this competition.

The result was more efficiency and productivity that would lead to the long term benefit of all of society. He was against any government action that would serve to disrupt this natural balance such as trade restrictions, wage laws, and industry regulation. Smith essentially believed that the more the government stayed out of the way, the better off society would be as a whole. In *The Communist Manifesto*, Marx makes an argument for an entirely stateless society. “ Political power” he states, “? is merely the organized power of one class for oppressing another. ” (Marx & Engels, 2006, p. 3) A common theme of *The Communist Manifesto* is the struggle between different classes of society, to which Marx simplifies to a clash between the “ bourgeois” and the “ proletariats”. Marx argues that “ The essential condition for the existence, and for the sway of the bourgeois class, is the formation and augmentation of capital; the condition for capital is wage-labor. ” (Marx & Engels, 2006, p. 19) Marx held the belief that in a pure Communistic society, there would be no classes, and that the government

would out of necessity dominate and control the means of production in the economy.

The legacy and impact of Adam Smith's *Wealth of Nations* was felt throughout Europe shortly after its publication. In England in particular, the British prime ministers sought policies that were attributed to what they had learned in Smith's book including a new commercial treaty with France, customs reform, and a change in fiscal policy that resulted in lower debt and government spending. Government's throughout Europe also began to realize the fallacy of the artificial trade barriers erected between the different countries; so much so that they would prefer to trade with their American colonies more often than their own neighbors. West, 1990) Smith's greatest impact is perhaps the academic contribution to the study of economics. Before *The Wealth of Nations*, there really was nothing of the sort that so thoroughly examined the fundamentals of economics. Nearly every economist after Smith, including Karl Marx, would use *The Wealth of Nations* as a primary source and base their arguments off of Smith's suppositions. Marx's influence on the world however was far from an academic exercise. The violent revolution that Marx predicted would need to occur in order for the proletariats to overthrow the bourgeois did indeed occur in Russia during the "Red October" of 1917.

The ruling aristocracy of Russia's Czarists came to an end at the hands of Vladimir Lenin's Bolsheviks. This would lead to the formation of the communist Soviet Union. During the revolution, the Bolsheviks seized all the private property around the country, gave control of all the factories to the government, nationalized all the banks, seized all of the Church's properties,

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and declared that they would not honor any foreign debts. Thus the first real attempt at Communism took the form of the Soviet Union; symbolized by the worker's sickle and hammer on the flag. "October Revolution", 2008) The actions of the Soviet Union would go on to inspire many other Eastern countries to attempt their own versions of Communism; all consistent with the principles Marx envisioned in The Communist Manifesto. The resulting conflict of economic fundamentals between these Communist entities and the more Capitalist economies of Western Europe and the United States would spark conflict throughout much of the 20th century. References capitalism. (2008) In Wikipedia, The Free Encyclopedia

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