

United states in the views of adam smith and karl marx essay sample



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Introduction

The objective is to analyse the United States political and economic system in the point of view of two prominent economic thinkers, Adam Smith and Karl Marx. Both theories will be used to explore the economic decisions of the United States discussing scarcity, stakeholders and their influence on economic decisions, production and the use of productive resources. Adam

Smith-Biography

Adam Smith, shown in Figure 1, was born in Kirkcaldy, Scotland in the year of 1723. He graduated from the University of Glasgow at the age of 17 and his teachings and publications became well known. While traveling throughout Europe, he met many leaders known as physiocrats, whose beliefs influenced Smith. Adam was against the economic system of his generation which was mercantilism. This system was successful when a country would export more than they import and they would limit imports resulting in money flowing into the country and very little going out which creating a more profitable country. He believed that people should be allowed to work without any restrictions and by doing so, it work will in favour of the economy. Smith's economic theory was based on how individuals' self interest benefits the economy rather than the artificial laws enforced by the government. He wrote about his theories in his two most famous works, *The Theory of Moral Sentiments* and *The Wealth of Nations*. Adam Smith died on July 17, 1790 (Bolotta, Hawkes, Mahoney, Piper). Karl Marx-Biography

Karl Heinrich Marx, shown in figure 2, was born on May 5, 1818 in Rhineland, Germany. He studied philosophy and history at the University of Berlin. He

received his doctorate at the age of 23 and married two years later. He was in opposition of the economic structure during his time as it was based on core capitalist principles. The rich get rich off the labour of the poor. He was very much against the wealthy living, also known as the Bourgeoisie and supported the lower working class, known as the Proletariat. He started publishing his socialist views through editorials to the public and so he was soon in trouble with the government and was forced to leave the country. He and Friedrich Engels joined together and wrote their theory of communism in The Communist Manifesto. They believed that the revolution of communism would begin after the Proletariat rise to the Bourgeoisie (Bolotta, Hawkes, Mahoney, Piper). History and Description of Government

The United States became its own country on July 4th 1776, which is now known as its Independence Day, after the American Revolution when they separated from the control of Great Britain (Wikipedia History). The country established a sort of government called the Constitution of the United States in 1787 which allowed citizens equal rights and implemented a guideline of their duties as well. The Bill of Rights followed shortly after in 1791, amending that each individual has certain rights that cannot be taken away from them even by the government (Wikipedia 2010). It is evident from the actions of the United States that the government was operated under many principles by Adam Smith. Allowing citizens their rights demonstrates that a central authority will not be in power which was the beliefs of Karl Marx. Democracy was exhibited by the United States as people were given the power to vote and elect representatives for the country (Wikipedia 2010).

Description of Economy

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With a population of 310 million and a GDP of \$14.4 trillion, shown in figure 3, the United States ranks as one of the biggest powerhouse countries in the world. The economic structure that was first introduced by Alexander Hamilton in the late 17th century has globally become the strongest system (Wikipedia 2010). The gross domestic product measures the countries overall value of economic production. The higher a countries GDP is, the more profitable the economy becomes (Wikipedia 2010). Adam Smith supported The Law of Population which shows an indirect correlation between the production of a country and its population. For example, it is shown in figure 2 and 3 that both the GDP and population of the United States have increased over the past couple of decades. This theory states that as production increases, employment will increase and companies will soon increase the wages of the workers they employ. As a result of higher wages, citizens' living conditions will improve including being able to provide better health care thus, mortality rates decrease and population increases. In the United States this has been true as the minimum wage has significantly increased from approximately \$3.35 to \$7.25 in the past couple of decades which has been one of the causes for population to increase (Wikipedia 2010). Adam Smith's principles are clearly evident in the economic structure of the United States.

He believed that self interest, profit being the motivator, will overall benefit the economy introducing a " free market" where it is guided by supply and demand. The United States is a capitalist mixed economy meaning mostly everything in the country is privately owned. This allows businesses to operate and keep profits however Karl Marx believed, capitalism will only

allow the rich to get richer and the poor get poorer. This theory is true in the United States because the government does not intervene in production. The invisible hand which is a theory Adam Smith believed will allow the forces of the market to run its natural course. Factors such as supply, demand, competition will naturally control the economy which is why he believed laws should not restrict the market. The American economy privately owns mostly everything such as health care (Bolotta, Hawkes, Mahoney, Piper). Health care in the United States is one of the most profitable industries because everything must be paid for by citizens (OECD). Unlike majority of other fully developed countries that provide health care to citizens, health care facilities are mainly owned and run by the private sector (Wikipedia 2010). Shown in Figure 4, American citizens spend the most in the world on health care which proves a drawback for a capitalist economy as citizens receive very little help from the government.

Use of Scarce Resources and its Effects

The theories of both economists did not directly consider natural resources but with the practice of their economic systems, the use of commodities can be analysed. Karl Marx believed that a central authority should control what to produce and how much of it would be based on the needs of its people (Bolotta, Hawkes, Mahoney, Piper). Demand does not come into play in this theory because people are surviving on what is necessary and not on their wants. When examining the United States' decisions on the use of scarce resources, the market decides. In perspective of both thinkers, the United States follows more principles regarding scarcity from Adam Smith than Karl Marx. Looking further in detail at this theory, natural resources are not used as efficiently if a country follows this economic theory. Operating under this

system has proven to not be the most logical. If a country is producing as much as consumers want of a product, the scarce resource will soon enough run out. As shown in figure 5 (Ausubel), the total withdrawal of water has been geometrically increasing for the last 100 years.

The actual consumption of water is much less; demonstrating that a large majority of water is being wasted. At the rate that water is being used, it will run out and mankind will not be able to produce anything without it. Oil is another example of a commodity that is being over used for almost everything. America imported almost 3, 300, 000 thousand barrels of oil in the past year (U. S. 2010). Consumer demand of oil is infinite (shown in figure 6) and until it finishes, it will always be in demand. The “ free market” of the United States allows people to purchase any commodity, even if supply is significantly decreasing (Bolotta, Hawkes, Mahoney, Piper). For example, oil is being used for transportation, to fuel cars, trucks, airplanes, etc. Although it is allowed, it is not essential for everyone to purchase a car or a plane ticket. By doing so, consumer’s desires and wants result in the unnecessary consumption of natural resources. While analysing the scarcity in a country, Karl Marx’s theory works better in favour of efficiency as natural resources will not be going to waste, given that in a communist economy, the number of goods being produced will only be enough to sustain human survival and not their desires.

His opinion is that a central authority controls the fundamentals of production and responsibility is shared between all citizens equally. The price of goods will never increase as consumers are not given the option to demand for producers to raise prices (Bolotta, Hawkes, Mahoney, Piper). By <https://assignbuster.com/united-states-in-the-views-of-adam-smith-and-karl-marx-essay-sample/>

operating under Adam Smith's beliefs, the United States government is allowing producers to produce as much as possible so long as consumer demand is high. This will soon enough lead the United States to an economic crisis when a resource runs out and consumers will be left in the cold. If there was no more oil left in the world, the most important stakeholders that would be affected are the producers and consumers. Oil extracting companies will have no supply and producers would be forced to shut down. Consumers will not be able to drive petroleum fuelled cars, airplane transportation will be in halt until other methods of fuelling airplanes are discovered and the government will no longer be receiving any money from oil taxes.

Other industries would be affected as they will have opportunities to create other goods and services that will replace the complimentary goods of oil. The car industry will have the greatest impacts as all car chains will have billions of dollars in useless assets and technology advancement in cars will be geared towards using ethanol and electricity. If the United States decided to operate under a communist society, stakeholders would not have such an influence on business decisions as opposed to a capitalist society because they do not have control over the complete power over business decisions against the government as they would have in a capitalist society. Stakeholders would prefer following Adam Smith's principles as they do not have to abide by all government laws and have more of a say on what business decisions occur. Fundamentals of Production

Adam Smith's idea of the invisible hand influenced a new type of government called "laissez faire" meaning leave it alone. He believed that <https://assignbuster.com/united-states-in-the-views-of-adam-smith-and-karl-marx-essay-sample/>

the government should not restrict citizens with artificial laws as they are ineffective and natural laws should essentially govern the economy. In this type of economy, the government only pose very few laws to prevent monopolies on consumer goods and productive resources (Bolotta, Hawkes, Mahoney, Piper). The United States market operates on these principles and the producers and consumers are the ones in control of the foundation of production. In the American economy, the production of goods and services is mainly based on the needs and wants of consumers. Karl Marx's theory on what to produce is determined by the government based on the needs of the people (Bolotta, Hawkes, Mahoney, Piper). To determine what products should be produced, trends will be examined to analyse its influence on consumer wants. A trend that played a significant role in the music industry was the advancement in technology of portable music players. After the iPod and mp3 players were introduced, they were in high demand (shown in figure 7) and in the United States whatever is in demand is produced.

Since the market's demand of this product increased, Apple created more iPods. Karl Marx's theory opposes Adam Smith's because instead of a " free market" (Bolotta, Hawkes, Mahoney, Piper), the government controls the market so trends would not have an influence as consumers do not have any say of the goods available to them. This economic system would have a different effect because stakeholders are not significant to a business as the government overrules them. Producers would not be able to satisfy consumers or make decisions in the best interest of their business as they must abide by government orders in regards to production. Stakeholders are greatly affected by the influence of trends on customer wants as they are

financially involved with a business' activities. For this example, record label companies, artists and electronic industries would be greatly affected by the demand of iPods. Record label companies and artists sales will drop now that CDs aren't as popular, and electronic manufacturers will be in demand.

In the American economy, every businesses goal is to make money. In efforts of doing so, businesses aim to minimize their expenses which will maximize their profits. The means of how to produce goods and services are usually operated in the least costly way for the organization. Depending on the business, there are many different ways of how to produce. Adam Smith's economic system leaves producers and consumers to figure it out on themselves which is how the United States economy operates. Businesses have very few laws that they are required to follow on how they should produce which is an influenced communist principle. The mix of these principles from both theorists makes the American economy mixed (Bolotta, Hawkes, Mahoney, Piper). The production of goods and services vary from industries. In the agriculture industry for example, production is mainly performed by manually harvesting sometimes or machinery for larger farms. This is an example of free enterprise as the farmer keeps all the profit. This same scenario would be much different if it was a communist economy as the government would give the farmer land and work but keep a large portion of the profits. The difference between these two economic systems is that in a communist economy the government would direct what to produce and how much of it to produce which also means consumers do not have unlimited supply of goods and everything is shared equally with the community (Bolotta, Hawkes, Mahoney, Piper).

Throughout the Industrial Revolution during the 18th century, factories started becoming more efficient with production with the use of machinery. Goods were being mass produced and manual labour was decreasing (Hooker). The level of efficiency in production was increasing, there was division in labour and individual specialization was being recognized. People started working in fields that they were more efficient working in and as a result, better quality of goods were being produced. This has more of a positive effect in Adam Smith's theory since everyone is working in the best interest of themselves where as in perspective of Karl Marx's, the government commands people what to do which will not allow them to prosper (Bolotta, Hawkes, Mahoney, Piper). Karl Marx believed that capitalism forced slavery amongst the poor. He witnessed workers being exploited and the rich were only getting wealthier off the labour of the poor (Kuhn). This has been an ongoing continuous problem that is a result of a capitalist economy like the United States. Marx believed in two ideas which he called labour value and surplus value.

The labour value implies that the value of any item is determined by the value of labour. The worker puts the value on the item as they are the one who produced it. For example, in the United States, the Nike Company pays children 2 cents a day to produce multiple pairs of shoes and Nike makes a profit on average of \$30 per shoe. In this theory, the \$30 that is made in profit should have been \$30 more the child makes so \$32.02 since they prepared that shoe (Azam). The surplus value implies that profit made from the good should go back to the labourer or else the company is basically stealing from the worker. The United States works against this theory as

everyone is forced work in the best interest of themselves (Bolotta, Hawkes, Mahoney, Piper). Who to produce for is left for consumers and producers to determine. The United States government does not direct businesses who they can sell their goods and services to. Businesses have specific target markets and produce according to the needs and wants of their consumers.

Adam Smith is supportive of this system but Karl Marx would argue that this would corrupt the economy. According to him, a central authority should control who goods are produced for. This theory may sustain the economy longer than Adam Smith's since natural resources are used more efficiently (Bolotta, Hawkes, Mahoney, Piper). It has been demonstrated in the United States that allowing businesses to produce for whomever is not very logical. For example, majority of the American population is now addicted to fast food. Children have been raised around fast food since they can walk which is consequently resulting in the high percentage of obesity. As demonstrated in figure 8, the percentage of obesity in American population has been significantly increasing. This proves that the United States giving businesses such as fast food chains complete control over who to sell to has become a disadvantage in this case. This may not be an issue in a communist society, as the central authority would govern who businesses can sell to and if they could restrict children from fast food, this would not have been an issue.

Conclusion

In conclusion, the United States economic and political system is much more clearly influenced by the principles of Adam Smith. However, it has been revealed that some of these theories are not the most rational for the United States economy to be operating under as it has many current and potential

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risks which may lead the country into an economic crisis. Though, the U. S. has become a mixed economy and does operate under a few communist principles, the foundation of the economy relies on capitalism.

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