

Economic theories of adam smith and karl marx and its connection

[Economics](#)



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The world is an ever-changing entity. As people adapt, so too does the world, and society in which they live. Throughout the centuries, the world has seen many different types of societal change ranging from feudal society to present day democracy. With each change in political structure, there comes a change in the economy. Two major economic theories, still contested today, are those of Adam Smith and Karl Marx. Smith's concept of laissez faire, as explained in *The Wealth of Nations*, calls for little government intervention in the economy seeing that the market is inherently self regulating. Marx's theory explained through his writing of *The Communist Manifesto* calls for the breakdown of social classes in favor of the proletariat. While both concepts are very different, they both advocate for the overall needs of society, but have different methods of achieving the same goal. Regardless of their similarities, Adam Smith's theory of laissez faire in the areas of industrial capitalism, economic production, and social organization prevails over that of Marx due to its various successes throughout history, and its continual utilization in society to this day.

1776 was not only the year the American colonies gained independence from the British monarchy, but was also the year Adam Smith published *The Wealth of Nations*. In this newly developed society, Smith, and other well known scholars of the time, had to deal with many up and coming issues plaguing their community such as the growth of industrial capitalism, and how to form a society which is both self sustaining, and productive.

According to his various writings, Smith has two major theories that are crucial to the success of a capitalist society and economy. Those theories are laissez faire (limited government intervention in the economy), and the

invisible hand, leaving the market to its own devices to exist as a self-regulating mechanism. He validates the idea that individuals can work together to create a productive capitalist society as long as they adhere to his theories, and follow the laws of the market - which states that the world is complex, and that competition is an important factor because individuals are self interested - leading to the positive outpouring of competition to create goods on a desirable level. By implementing this idea of laissez faire, there is more of an opportunity for individuals, and businesses alike, to learn how to survive in a society of their own, which is no longer under the jurisdiction of the English monarchy.

The idea of industrial capitalism, according to Smith, depends on the delicate balance of supply and demand, and the natural ebbs and flows within the economy. He also believes that the division of labor within a capitalist industrial economy, and the emphasis on specialization is important in that it increases productivity within society. This coincides with Robert L. Heilbroner's analysis in which he claims that Smith is concerned with the promotion of the wealth of the entire nation, and that goods should be readily available to all people equally. In order to achieve these goals, the doctrine of laissez faire was established. According to Adam Smith, the least government is certainly the best: " governments are spend-thrift, irresponsible, and unproductive... Smith is against the meddling of the government with the market mechanism." In order to prevent the aristocratic government of England from penetrating the newly formed government of the United States, it is clear that Smith's proposal of a laissez faire economy will ensure that the industrial capitalist society of his time will

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stay focused on economic success, and not be overrun by corruption and greed.

Not only does Smith's policy benefit the economy, but it also has a positive effect on society's ultimate success. The benefits of capitalism, and Smith's laissez faire policy is that it allows individuals to express their different needs through competition. Although competition often has a negative connotation, in an emerging society and economy, it is important to understand that competition, along with the idea of personal gain is key to the future success of the society. People will continuously work to try and be as successful as possible, leading to growth in the political and social sectors of society. Smith also promotes the idea of class distinction within society. This is important to a growing society because there will always be individuals who are either lower or higher than oneself on the social hierarchy. This is extremely important because it allows for individuals to constantly work hard in order to change, or maintain, their social standing thus resulting in either social, political, or economic mobility and success. Smith's theories all emphasize the importance of the individual, and while that may seem slightly egotistical, he created these concepts in order to emphasize the importance of solid, self-sustaining economy in which each individual has the incentive to work hard to benefit both themselves, and their societies in the long run.

On the other end of the economic theory spectrum is Communism. When Karl Marx and Fredrich Engels wrote The Communist Manifesto, in 1848, England was in the midst of the Industrial Revolution. In order to increase

productivity and decrease wages, manufacturers would turn to machinery instead of hiring workers to get the job done. Marx's concept of industrial capitalism was one of animosity towards the manufacturers in favor of the lower peasant class. He believed that capitalism is what led to the societal divide, causing such strong class divisions between the bourgeoisie and the proletariat. In order to combat this class division, and raise awareness for the plight of the proletariat working class, Marx authored The Communist Manifesto. In it, he discusses various ways in which he believed that he could create a more egalitarian society. One way to do so is through the abolition of private property. He believed that by ending the ability for the bourgeoisie to maintain control of private property, class antagonism would subside, yielding a more economically equal society, which will in turn allowed for a smaller financial gap between the classes. Heilbroner's analysis of Marx revealed his strong desire to overthrow existing class relations, which is what needed to occur in society in order to see real political change during one of the most complicated economic eras. The inevitable undertaking of industrialization in society caused a shift in capitalism and economics. Industrial capitalism may have started off as a positive economic change, but quickly led to a rise in social class inequality, and hatred of the poor against the rich, as Marx had predicted.

Communism promotes the idea of total collectivization and complete equality. To the untrained eye, it would seem that communism would be the lesser of two evils, and that every society should strive to become communist. However, after fully learning about the true ideas of communism, and what it really means to live in a communist society, it is in-

fact worse for an economy to be communist. Throughout his different writings, Marx emphasized the evils of private property and class distinction. He claimed that collective ownership of goods would ensure a more stable and equal society, when in fact it did the opposite. Complete collectivization is detrimental to an economy, causing a lack of differentiation in the production of goods. Individuals are thus unable to buy what they want, only what they need, causing the normal equilibrium of supply and demand to suffer. More goods will be in demand than others, skewing the equilibrium that comes with a self-regulating market. Communism also emphasizes the importance of a class-less, more equal, society. There is no incentive for people to work hard because ultimately, all their hard work and effort becomes collectivized. There is nothing for the individual to strive to achieve, and nothing for them to desire, because in a class-less society, there is no incentive to overachieve.

In both scenarios, Marx's and Smith's theories face various consequences in their specific economies. Smith's theory of laissez faire affected economic production during his time, He feared that the more desired goods an economy produces, the more involved its government will become, causing an adverse effect than what laissez faire calls for. Marx's theory also has various consequences for economic production. By increasing industrialization and economic production, mechanization increases. " As workers are thrown out of work, they are forced to accept sub value wage... [leading to] competition for workers; higher wagers, labor-displacing machinery...collapse." This caused workers to do menial jobs below their skill

set, deeming them easily replaceable, leading to an increased social class division between the proletariat and the bourgeoisie.

Social class and organization played an enormous role in the implementation of Marxist theory. By destroying the social construction of the class system, society is closer ensuring full equality and capability. Marx believed that the growing inequality between the social classes lead to an inevitable revolution in which the lower class would rise up against the upper class allowing them to move up in the social ranks. Due to the inequality and the exploitation of the lower class workers, in Marx's world, class conflict was inevitable, leading to social revolution. According to Smith's theory, social organization followed a slightly different path than that of Marx. His theory illustrated the concept of the laws of nature and social Darwinism. Those who are able to succeed within a changing economy, through modernization and industrialization, will be more likely to succeed due to their ability to adapt to the various economic and social changes. Smith's Law of Markets stated that the choice an individual made has an effect on the rest of society. This allowed the economy to regulate itself, because those only interested in their own personal gain would ultimately not survive economically. Smith saw a shift in society in which competition now became the main source of conflict. However, this did not necessarily have such negative consequences. An increase in competition is good for the economy, causing the market to self-regulate and produce more or less goods depending on the supply and demand of the economy, emphasizing Smith's initial theory of the invisible hand.

Politics and economics are often strongly intertwined. However, while some theorists, like Marx, see the strong connection of politics and economics, Smith does not. Smith sees political intervention and implication as more of a detriment to society than a benefit, with regard to his economic policies. Laissez faire is defined as a doctrine opposing governmental interference in economic affairs beyond the. While this concept is helpful economically, it has a negative implication on the political sector. Political intervention within a free-market economy would be catastrophically harmful to the success of the economy, and ultimately society. Marx, however, feels differently than Smith. He sees the two entities as a more cohesive unit, and understand the importance of positive political intervention within his theory. Marxism emphasizes the importance of a modifying political order within a society's economy. He adamantly fought against the social structure in his society, in order to bring social change. If his theory succeeded, not only would society be more egalitarian, but ultimately so would its subsequent economy and political structure.

It may seem like Marx's concept of communism would solve many problems, and debunk any and all existing social conflicts, however, it did just the opposite. There have been many instances throughout history in which communism had risen to the forefronts of society with the aims of creating a fully equal society, when instead of resulting in collective prosperity and success, resulted in full-scale economic destruction, and political upheaval. A strong example of the failures of communism would be Vietnam in the 1960's under the rule of Ho Chi Min. As a result of the onset of the Vietnamese war, the country was in a state of virtual economic destruction.

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In the north, it was due to war conditions, and in the south it was due to an increased dependence on foreign aid. Communism is essentially the breakdown of social class in order to achieve full equality of all citizens within a society regardless of past social standing. When Ho Chi Min came into power, he alluded to a better future for the Vietnamese people however, they obtained only poverty, hunger, and misery. Theoretically, communism seemed like it would be the right choice; total collectivization of society means total equality and therefore equal happiness, when in reality, it only brought economic disaster. However, it is clear though in the case of Vietnam, and countless other countries, that communism is better suited in theory, not in practice. This shows how Marx's communist theory attempted to benefit society and ensure that all peoples are equal. Realistically, it just led to increased economic division, and devastatingly poor living conditions for the Vietnamese citizens.

Adam Smith's concept of laissez faire still resonates today, just under a different term – economic freedom. Economic freedom is the freedom to prosper within a country without intervention from a government or economic authority. Adam Smith's concepts and ideas are still in effect today, whereas Marx's theories have become obsolete. Although it changed names to fit the modern times, it is clear that overall, Adam Smith's ideas have prevailed throughout time, and are still practiced in today's day and age. According to the 2016 Index of Economic Freedom, Hong Kong has an overall score of 88.6, making it the number one most economically free political entity in the world. The reason for Hong Kong's great success is because of its low level of government intervention. Its success is mainly due

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to the implementation of prudent economic policy within a stable and transparent legal environment. Hong Kong has a fiscal freedom rating of 92.6, property rights rating of 90, and business freedom of 97.4. This high level of success can be attributed to Hong Kong's extremely limited government intervention, leading to a virtually nonexistent public debt, and markets that are self-regulating, and open to international trade and investment.

According to the Library of Economics and Liberty, Hong Kong has such a high level of economic freedom due to its relatively low level of taxes, free trade with minimal regulations, and a good legal system, with a low level of government intervention. This is a testament to the prevailing success of Adam Smith's economic theories. It shows that by having high levels of free trade, and minimal government intervention, an economy can prevail.

Although Adam Smith and Karl Marx's publications spanned a 72-year difference, and seem to offer ideas on completely different sides of the spectrum, they still bear many similarities. Free-market economies, laissez faire, and communism, are all just different ways of trying to solve the economic, political, and social problems of the world. Both theorists wanted to find a way to fix the problems affecting their societies in ways that made the most sense to them in context. While today it is clear whose idea was ultimately successful and whose was not (due to the lack of communist societies, and influx of economically free ones), it is important to note that without the creation of either concept, the world today would not be what it is. Both individuals, and their contributions, have helped to shape and alter society to eventually lead the world to become the democratically mindful, and economically cautious entity that it is today.

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