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### Roots of Economic Dichotomy: A Comparative Analysis of Adam Smith and Karl Marx

The world is filled with pairs of systems that complement or compete with each other: the East is compared to the West; Heaven is complimented with Hell; the Japanese symbol of the yin-yang represents two complementary forces that make up all aspects of life. It seems as if nature works in a system of balance and cycles. In 1776 Adam Smith first published *An Inquiry into the Nature and Causes of the Wealth of Nations*, setting forth copious notions about how the economy functions and the benefits derived from it. While his ideas were welcomed and analyzed by his contemporaries, there were ultimately those that came up with alternative and competing ideas. Smith's competing force was writer and philosopher Karl Marx. In his writings, *The Communist Manifesto* and *Capital*, Marx presents different takes on the topics covered by Smith. Both of these economists attempt to understand the ways in which the economy works but come up with contrasting ideas since each was influenced by their respective social context; Smith believed that the system was mutually and economically beneficial whereas Marx saw the system as being alien, exploitative, and self-destructive.

One of the driving forces behind Adam Smith's analysis of the economy is the individual's regard for his or her own self-interest. This self-interest will lead to a division of labor which is essentially specialization at the micro or macro level. Smith believes that humans have a natural propensity to trade; they are willing to trade their own surplus to acquire other goods and services they want or need. Because people are only willing to trade for what they feel satisfies their needs, any transaction between parties exists because individuals look after their own self-interest. This results in the creation of mutually beneficial trade. Smith also believed

that the division of labor "encourages every man to...cultivate and bring to perfection whatever talent or genius he may possess for that particular species of business" (1981:28). This specialization is beneficial for three reasons. "First, to the increase in dexterity in every particular workman; secondly, to the saving of the time which is commonly lost in passing from one species of work to another; and lastly, to the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many" (1981:17). These three attributes allowed the division of labor, to produce larger quantities of goods. Because Smith measured the wealth of nations in terms of its gross domestic product, rather than the previously accepted measurement of the amount of gold accumulated, it is evident that, according to Smith, acting in one's self interest and the division of labor not only creates mutually beneficial trade, but also fosters a successful economy.

Marx, on the other hand despised the notion of self interest, claiming that instead of it fostering a healthy economy it would lead to private property and the exploitation of the working class. Marx agreed with Smith in that self interest creates a division of labor. However he additionally believed that this division created two distinct classes and the conflict that existed between them. These classes were the bourgeoisie, or the owners of the means of productions, and the proletariat, or the wage laborers. In *The Communist Manifesto*, Marx concluded that the division of labor allowed the bourgeoisie to, "[resolve] personal worth into exchange value" and, "in place of the numberless indefeasible chartered freedoms, has set up that single, unconscionable freedom - Free Trade. In one word...it has substituted naked, shameless, direct, brutal exploitation" (1999:67-8). To Marx, acting in one's self-interest would lead to property owners dehumanizing and exploiting workers in order to benefit themselves. The proletariat are simply a means to an end for the bourgeoisie, who see the workers as tools to make profit rather

than human beings trying to make a living. Therefore, rather than each party's self-interest being catered to, as Smith believed, the power that the bourgeoisie had over the proletarians created a scenario in which only the former's self-interest was addressed.

For Marx, the power that the bourgeoisie gained from the division of labor and private property created exploitation and strife. Because of this, Marx called for the "abolition of bourgeois property" because "modern bourgeois private property is the final and most complete expression of the system of producing and appropriating products, that is based on class antagonisms, on the exploitation of the many by the few" (1999:78). This seems to contradict Smith's notion on the importance of private property. Rather than seeing private property as a contributor to social inequality and exploitation, Smith saw it as a beneficial, natural progression of society. At the beginning of his chapter *Of the component Parts of the Price of Commodities*, Smith states that, "in the early and rude state of society which proceeds both the accumulation of stock and the appropriation of land, the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another" (1981:65). Back in this early stage of society, the only component of value is labor since no capital or land is owned. Once ownership of land begins, i.e. when private property emerges, society breaks away from the early and rude state and becomes a more developed society in which rent and interest are additional components of value.

This does not mean, however, that Smith and Marx completely disagreed about the ramifications of private property. In fact, Smith seemed to be contempt towards landowners. He believed that, "as soon as the land of any country has all become private property, the landlords...love to reap where they never sowed" (1981:67). The laborer is the one that adds value to the land by preparing it, cultivating it, and harvesting it. Yet it is the owners of the land

that receive revenue in the form of rent despite not adding any value to the land. Essentially, Smith saw the main ramification of private property as landowners unfairly profiting from their ownership of property, or in other words, as exploitation of the workers. Despite acknowledging this, Smith does not go into detail about the prominence of exploitation and unfair profiting in the economy; therefore, it would be unfair to say that Marx and Smith completely agreed, although it proves that they were not economic foils of each other.

We can also analyze the similarities and differences between Marx and Smith by addressing what they each saw as the main determinants of value. Both Marx and Smith believed in a labor theory of value. This means that they thought the value of commodities could be measured in terms of the labor hours needed to produce them. Marx, in *Capital*, states that, "a use-value, or useful article, therefore, has value only because human labour in the abstract has been embodied or materialized in it. How, then is the magnitude of this value to be measured? Plainly, by the quantity of the value-creating substance, the labour, contained in the article ...[which] is measured by its duration" (1952:15). The notion of use-value is not the exchange value of a good, it is not related to a monetary value. Rather, it is the intrinsic usefulness of a commodity that can be measured in terms of labor hours. Marx goes on to describe different forms of value, from the elementary form, to the general form, and ultimately ending with the money form. Through these Marx attempts to transition from a use-value to an exchange value. Similar to the writings of Ricardo, Marx sees money, or gold, as a measurement of value. However he specifically thinks that, "it is because all commodities, as values, are realized human labour, and therefore commensurable, that their values can be measured by one and the same special commodity...Money as a measure of value is the phenomenal form that must of necessity be assumed by the measure of value which is immanent in commodities, labour time" (1952:42).

Essentially, Marx sees that labor is the cause of value. This means that despite commodities having an explicit exchange value in terms of money, value is actually measured in terms of labor hours since labor hours are present in all goods; money is simply acting as a medium of exchange but it is the labor hours of the workers that creates a commodity's value. ■

If it were true that labor was the sole determinant of value, Marx wondered how capitalists could possibly yield a profit. If the price of a commodity was equal to the costs of production, which would only be wages, it would be impossible for capitalists to receive revenue in the form of profits if the good is sold at its natural price. In *Capital* Marx explains that laborers experience two stages in the labor process. In the first the laborer must, "produce the value of his labour power, and thereby to gain the means of subsistence necessary for his conservation or continued reproduction" while in the second stage, "his labour is no longer necessary labour...he creates no value for himself. He creates surplus value which, for the capitalist, has all the charms of a creation out of nothing" (1952:104). Not only does this show that Marx believed in long term wages equaling subsistence costs but, more importantly, it also reveals that he believed that any profit that capitalists make off of surplus value is exploitation of workers. This is similar to Smith's critique of landowners that "reap where they never sowed" (1981:67). Both economists see those with the means of production creating surplus value at the expense of the working class. ■

Similar to Marx, Smith also believed in a labor theory of value. But rather than labor being the only cause of value he believed that there were three determinants of value once a society developed past its early and rude state. The first component was wages for labor, the second, rent on land, and the third, profit on capital. These "natural rates of wages, profit, and rent" (1981:72) determine the prices of goods since "the price of any commodity is neither more

nor less than what is sufficient to pay the rent of the land, the wages of the labour, and the profits of the stock employed in raising, preparing, and bringing it to market according to their natural rates," under these conditions, a good is sold at its "natural price" (1981:72). As far as profits go, Smith recognized that "as soon as stock has accumulated in the hands of particular persons, some of them will naturally employ it in setting to work industrious people, whom they will supply with materials and subsistence, in order to make a profit by the sale of their work, or by what their labour adds to the value of the materials" (1981:65-6). According to Smith, those that have capital, or stock, are likely to save and invest it in future profit rather than spend it on instant gratification, which Smith himself condemns. This investment is a risk on the part of the master and therefore, "something must be given for the profits for the undertaker of the work who hazards his stock in this adventure" (66). Profit, to Smith, is simply a component of value; it is compensation for a master's risk in investment just as wages are a laborer's compensation for working. The fact that Smith recognizes that, "in every improved society, all the three [determinants] enter more or less, as component parts, into the price of the far greater part of commodities," (1981:68) implies that each is natural in the determination of prices and cannot, therefore, be unnatural and exploitative. In other words, despite being disdainful of landlords profiting without adding any value to a good, Smith also recognizes the nature of it. Their profiting is unfair, but natural. This is the key difference between what Smith believes and what Marx believes; because to Marx, bourgeoisie profits are both unfair and unnatural.

Despite not seeing profits as a means of exploitation, Smith does recognize the potential for opposition between those that receive revenue via wages and those that receive revenue through profit on stock. Rather than those classes being labeled as the Proletariat and Bourgeoisie, Smith calls them the workers and the masters. These two parties have "interests

[that] are by no means the same. The workmen desire to get as much, the masters to give as little as possible" (1981:83). Smith continues saying that individuals in the groups are then likely to combine, "the former...in order to raise, the latter in order to lower the wage of labour" (1981:83). Smith is identifying a source of conflicting interest between the workers and the masters, but does he see this leading down the same, dark path that Marx envisioned? Smith says that when individuals combine into the two groups, "it is not...difficult to foresee which of the two parties must...have the advantage in the dispute, and force the other into a compliance with their terms. The masters, being fewer in number, can combine much more easily; and the law...does not prohibit their combinations, while it prohibits those of the workmen" (1981:83-4). The masters have bargaining power over the workers, not only in ease of combining, but also legally. He furthers his analysis saying that, "masters are always and every where in a sort of tacit, but constant and uniform combination, not to raise the wages of labour above their actual rate" (1981:84). Smith believes that it is common practice for masters to collaborate and set wages, a clear indication of bargaining power and exploitation of workers.

Smith seems to agree with Marx about the exploitation of workers by masters, albeit to a lesser extent. He recognizes the fact that masters take advantage of their bargaining power but doesn't elaborate on it as Marx does. Marx recognizes this issue but uses it to attempt to create social change. In *The Communist Manifesto*, Marx states that, "labourers [that] must sell themselves piecemeal are a commodity like every other article of commerce and are consequently exposed to all the vicissitudes of competition [and] all the fluctuations of the market...[They become] an appendage of the machine and it is only the most simple, most monotonous, and most easily acquired knack that is required of [them]" (1999:71). The difference in bargaining power between masters and workers isn't just exploitative, it is

dehumanizing. Marx sees the workers slowly losing their individuality and transitioning into part of a machine.

We also see that Marx addresses the issue of the individual members of the bourgeoisie and/or the proletariat consolidating into larger groups of their respective class. In *The Communist Manifesto*, he writes that, "the labourers...form an incoherent mass scattered over the whole country...if anywhere they unite to form more compact bodies, this is not yet the consequence of their own active union, but of the union of the bourgeoisie" and that for the proletariat, "the real fruit of their battle lies, not in the immediate result, but in the ever expanding union of the workers" (1999:73-4). In Marx's society, he sees a power struggle between the bourgeoisie and the proletariat, with the majority of power embodied in private property, and therefore, the bourgeoisie. In that respect, his belief on bargaining power is similar to Smith since that power lies with the masters, or those with the means of production. However, Marx takes it a step further by asserting that the proletariat can exert more bargaining power if, and only if, they consolidate into a large social and political party (1999:73-4). Once that happens they will be able to create social change by overthrowing the bourgeoisie and the capitalist system which is the goal that he advocates in the manifesto. As a whole, when looking at the relationship between the bourgeoisie and proletariat or masters and workers, it is clear that Smith sees the potential for exploitation due to a bargaining power differential but he fails to connect it the alienating, dehumanizing, and socially revolutionary perspective that Marx later emphasized.

It is evident that Marx and Smith have some conflicting views as to how the economy functions as well as the ramifications spawned from it. This does not mean, however, that they disagreed about every economic aspect. In addition to the aforementioned disdain towards landowners, where Marx claimed their profits were exploitative and Smith saw their profits as



unfair but natural, there were other agreements regarding both economic and social factors. One such commonality was their attitudes towards taxation. In *The Communist Manifesto*, one of the ten general characteristics of societies that overthrow the capitalist system is "a heavy progressive or graduated income tax" (1999:84). To Marx, this progressive income tax was key to decreasing the distance between the bourgeoisie and proletariat. The goal was "to wrest, by degrees, all capital from the bourgeoisie, to centralise all instruments of production in the hands of the State" (1999:84) and by taxing individuals based on the amount of income they have, societies will slowly leach away more money from the capitalists and allocate it to the government.

Smith also advocated a progressive tax system, however his rationale was different than Marx's. Smith believed that "the subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state" (1981:825). In other words, Smith supported progressive taxes since they would tax people proportionally based on their income, those that receive more revenue will pay a larger proportion of taxes to the government. In this respect, Marx and Smith are similar. However, Smith goes on to explain that, "the expense of government to the individuals of a great nation, is like the expence of management to joint tenants of a great estate, who are all obliged to contribute in proportion to their respective interests in the estate" (1981:825). Rather than the goal of the progressive taxes being the reallocation of money from the wealthy bourgeoisie to the government, Smith saw progressive income taxes as a way for the government to provide for all. The government collects money from the inhabitants in the form of taxes and then acts as "management" to provide for them. Again, we see that the implications and rationale behind

Marx's beliefs is not just economic but also social in nature whereas Smith has a more traditional economic rationale behind his beliefs.

Recall the aforementioned fact that Adam Smith believed there were three components of value: wages, rent, and profit. When it comes to wages, Smith saw a potential long run trend. He believed, "a man must always live by his work, and his wages must at least be sufficient to maintain him" (85). Essentially, Smith believed that the wages someone was paid should never fall below the costs of subsistence. While he thought that wages could fluctuate above and below subsistence in the short run, he concluded that in the long run the trend would be that wages settle at the cost of subsistence (1981).

A similar mentality is seen in Marx's *Communist Manifesto* and *Capital*. In the former, he says that, "the average price of wage-labour is the minimum wage, *i.e.*, that quantum of the means of subsistence, which is absolutely requisite to keep the labourer in bare existence as a labourer" (1999:78-9). And in the latter he states that, in the first stage of production, a laborer "produces only the value of his labour power, that is, the value of his means of subsistence (1952:104). Marx calls this stage "*necessary* labour time and the labour expended...[is called] *necessary* (emphasis his) labour" (1952:104-5). Here we see that Marx is also advocating a subsistence wage. Wages should never drop below the cost it would take for a worker to survive at the lowest level. The terms "subsistence" and "necessary" support this; the wage level should be no less than what is essential, than what is necessary, for the workers to subsist.

Evidently both Smith and Marx saw the importance of subsistence wages in an economy, but again, differences arise. Smith's view of subsistence wages only took place in the long run; in the short run wages would fluctuate based on economic pressures and could therefore rise above subsistence level or fall below it. Marx seemed to take a more all encompassing view of

subsistence wages; that no matter if it was long term or short term, wages shouldn't drop below subsistence. This is because of the differing focuses of the two economists. Marx applied economic theories to social problems whereas Smith was attempting to understand the way in which the economy functions as a whole. Because of this Smith didn't delve into the ethics of whether or not wages should be below subsistence, he just wanted to explain how wages worked.

Just because Adam Smith focused more on understanding the economy does not mean that he didn't address any social problems. In fact, he saw one major flaw in the notion of the division of labor. He thought that "the employment of the far greater part of those who live by labour...comes to be confined to a 'very few' simple operations" (1981:781). The simplicity of working brought about by the division of labor is detrimental to the workers. Smith elaborates, "the man whose whole life is spent in performing a few simple operations...has no occasion to exert his understanding, or to exercise his invention...he naturally...becomes as stupid and ignorant as it is possible for a human creature to become" (1981:782). Smith's point is that the division of labor will dull workers', particularly young workers', minds. His solution to this is to educate people on what he calls "the essentials" (1981:785). He believes that, "the common people cannot, in any civilized society, be so well instructed as people of some rank and fortune, the most essential parts of education, however, to read, write, and account, can be acquired at so early a period of life...For a very small expense the publick can facilitate, can encourage, and can even impose upon almost the whole body of the people, the necessity of acquiring those most essential parts of education" (1981:785). Public education, provided by the government, was Smith's answer to what he saw as the inevitable decline in the education of workers due to the division of labor.

Marx also believed that public education would benefit young workers as well as the proletariat. He states that the "Communists have not invented the intervention of society in education; they do but seek to alter the character of that intervention, and to rescue education from the influence of the ruling class" (1999:81). He believes that if the education system is left alone, "all family ties among the proletarians are torn asunder, and their children transformed into simple articles of commerce and instruments of labour" (1999:81). The current education system, according to Marx, perpetuates the class struggle he is attempting to abolish. He also saw free public education as a way to combat child labor, as he called for "free education for all children in public schools; abolition of children's factory labour in its present form; [and] combination of education with industrial production" (1999:85) as the final of his general characteristics of socialist societies. While both Smith and Marx agreed that public education was necessary, we again see that the rationales behind the beliefs differ. Smith wanted to reduce the adverse effects of the division of labor on workers while Marx wanted to reduce bourgeois control over education.

There have been many economic theories developed and challenged over the years. Many are based off of early classical writings such as Adam Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations*. Smith's writings were being analyzed, criticized, and developed by other writers who added their own unique perspective that was driven by one main variable: culture. Karl Marx saw social struggles between classes and, influenced by Smith and other economists, came up with his own philosophy on how the economy operated and the ramifications of it. They tackled issues such as the impact of self-interest and the division of labor, the causes of value and fair wages, even the role of education. They generally saw similar economic phenomena in completely different ways; Marx being more pessimistic and Smith

being more optimistic. This could easily be explained by their historical context. Smith was paving the way for current and future economic knowledge and understanding; it would make sense that his views were generally optimistic in nature. Marx, on the other hand took a more social take on economics since the main problem he saw was a class struggle that resulted in exploitation and strife for the working class. His *Communist Manifesto* and *Capital* reflect this struggle and look at issues covered by Smith in a darker light. Smith and Marx are sometimes contrasted with each other since Marx looks at some of Smith's thoughts with a more critical, revolutionary eye, however they aren't two forces that directly oppose each other. There exist both similarities and differences, their economic philosophies and theories driven not only by their knowledge, but also their society.

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