

# *Capitalism and Morality*

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## **ADAM SMITH VS. KARL MARX**

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Karl Marx is one of the most controversial figures of the twentieth century, though he lived in the 19<sup>th</sup>, his legacy has lived on as one of controversy. As one of the original minds behind communism and a fundamental revolutionary, he is renowned as a radical and somewhat dangerous political philosopher. Adam Smith is the father of economics as a science. As a member of the school of classical economic thought, Smith fused economics with moral theory regarding the way man ought to live. Smith's explanations of market forces and the role of the state in economics have shaped our capitalist economic system today. These men have together been placed in the school of classical economics, signaling that there are similarities in their ideology. Politically, however, these men differ greatly. This essay intends to study some of their most poignant theories to discover when and why these men diverged in their political philosophy.

Throughout the years, philosopher-economists have argued various theories, attempting to find the one that will perpetuate the most efficient and lucrative economy. One famous and contested school of thought is Classical Economics. The school of Classical Economics has been called the "first modern school of economic thought."<sup>1</sup> One of the most famous economists of this genre is Adam Smith; some also place political-economist Karl Marx in the company of classical economists. Adam Smith and Karl Marx are polar opposites in the political-economic spectrum, proponents of capitalism and socialism respectively. Despite their political differences, they share some similarities; though much of their philosophy has been debated and replaced by the Austrian School of Economics, there are points of value to both Adam Smith's and Karl Marx's theories.

Classical Economics is a school of thought that emerged during the transition from feudal to capitalist society. Throughout this transition, economists were met with the task of deciding how the new system would meet the needs of producers and consumers alike. This task was daunting in that the economists had to discover a way in which most consumers, familiar with feudal society—in which barons, bishops, peasants, and other classes of citizens made a living in exchange for working on a fife owned by a member of the noble class—would now be the owners of their own property and finally possess the freedom of making and acquiring their own living. Classical economists held various theories regarding natural prices, value theory, and monetary theory that hinged on the new economic dynamic produced by capitalism. Each individual, classical economist shared similar thoughts on these topics, with an occasional theoretical variation. Smith and Marx's similarities and differences are clear upon the analysis of those topics—which will be addressed in the proceeding sections.

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<sup>1</sup> *Wikipedia, The Free Encyclopedia*, "Classical Economics."  
[http://en.wikipedia.org/wiki/Classical\\_Economics](http://en.wikipedia.org/wiki/Classical_Economics).

Karl Marx was born in 1818 in Trier, Germany. He studied law, history, and philosophy at the universities of Bon, Berlin, and Jena.<sup>2</sup> He became famous for his revolutionary ideas and as one of the originators of communist theories. He is renowned for his book on economic theory, *Das Kapital*. As members of the Communist League, Marx, with friend Frederick Engels, authored the Communist Manifesto which discussed the class struggle and the need for a revolution of the proletariat.<sup>3</sup>

Common Sense dictates that without production, consumption would not be possible. Cars do not pop out of thin air—there is a process by which steel, rubber, durable plastics, glass, and other materials are put together by both machines and people to create a car. In its crudest form, capitalism works in this way: after the car is created, people who need a car would then go to the “car factory” and purchase the car for the amount that they are willing and able to pay. In our capitalist society, there are a few other intermediate steps, people just do not walk into one of Ford’s factories and request to buy a “Mustang.” The cars are bought by a dealership and then sold to customers, etcetera. The main point, after the extensive example, is that capitalism can be broken down into two essential parts: production and consumption. Without the production portion, nothing can be consumed. This law is applicable in every day life: one cannot eat without acquiring/preparing food, one cannot live in a house without it having been constructed; one cannot buy goods at a market or store without the goods being produced and supplied by another party.

For Karl Marx, the production portion of Capitalism signaled great trouble. He believed production in Capitalist society worked in a way that the rich factory owner benefited and the poor factory workers lost. In his manner of reasoning, the Capitalist system was inherently meant to benefit the rich and exploit the poor: “All the bourgeois economists are aware of is that production can be carried on better under the modern police than . . . on the principle of might makes right. They forget only that this principle is also a legal relation, and that the right of the stronger prevails in their ‘constitutional republics’ as well, only in another form.”<sup>4</sup>

Marx held that in a civilized society production would occur among individuals. This production would be aimed to meet the needs of the individuals in the society. According to Marx, “In production, men not only act on nature but also on one another. They produce only by co-operating in a certain way and mutually exchanging their activities. In order to produce, they enter into definite connections and relations with one another and only within these social connections and relations does their action on nature take place.”<sup>5</sup> Marx espoused a historical materialist view of society and the world; he believed that humans create change in their lives and in their environment through practical activity in the practical world.<sup>6</sup> With this philosophy, it follows that Marx believed that practical activity in the practical world leads to the desire to meet the needs of people in society. The need to meet society’s individuals’ desires leads to production. Marx identified the four-part economic process, production, distribution, exchange, and consumption, in this way: “Production creates the objects which correspond to the given needs; distribution divides them up according to social laws; exchange further parcels out the already divided shares in accord with individual needs; and finally, in consumption, the product steps outside this social

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<sup>2</sup> Karl Marx, “Ideology and Method in Political Economy,” in *The Philosophy of Economics*, 2<sup>nd</sup> ed., ed. Daniel M. Hausman (New York: Cambridge UP, 1994), 119-142.

<sup>3</sup> “Karl Marx: Political and Economic Philosopher,” *Lucid Café*.  
<<http://www.lucidcafe.com/library/96may/marx.html>>.

<sup>4</sup> Hausman, *The Philosophy of Economics*, 123.

<sup>5</sup> Geoffrey Pilling, *Marx’s ‘Capital’ Philosophy and Political Economy* (London: Routledge and Kegan Paul, 1980).

<sup>6</sup> Jonathan Wolff, *Why Read Marx Today?* (New York: Oxford UP, 2002), 123.

movement and becomes a direct object and servant of individual need, and satisfies it in being consumed.”<sup>7</sup>

Production is very much related to consumption in that consumption is an end product of production and the act of production itself is an act of consumption. According to Marx, production is “twofold consumption, subjective and objective: the individual not only develops his abilities in production, but also expends them, uses them up in the act of production, just as natural procreation is a consumption of life forces. Secondly: consumption of the means of production, which become worn out through use, and are partly . . . dissolved into their elements again. Likewise, consumption of the raw material, which loses its natural form and composition by being used up. The act of production is therefore in all its moments also an act of consumption.”<sup>8</sup> The acts of production and consumption, for Marx, exist in a circular relationship. In order for an object to be produced, raw materials and resources must be consumed, consumed in this case meaning put to use in the act of production; in order for an object to be consumed, it must first be produced. The cycle is continuous. Marx identified a three-fold relationship between production and consumption. The first is “immediate identity:” this relationship merely examines the fact that production is consumption and consumption is production. In Marx’s own words, “Consumptive Production” and “Productive Consumption.” The second is “mutual dependence:” consumption and production are related but external to each other. An object is consumed in order to produce something; an object is consumed after it was produced. Third is “each supplies the other with its object:” production creates the object to be consumed, while consumption creates the object to be produced<sup>9</sup>. Production does not occur unless producers acquire the materials necessary to produce; consumption does not occur unless there is an object to consume.

In order for production to occur, someone must produce. Prior to the industrial revolution, production of goods hinged on work completed by human hands. Today, machines have replaced much of the human capital, but that is not to say that human labor is not currently an important part of production. Marx acknowledged the primal propensity to produce. As human beings in a society, we actively seek out a way to sustain life and in doing so, produce and create. Without labor (i.e. production) citizens die, economies flounder, and countries collapse.

Marx, as earlier noted, found problematic the production/labor aspects of Capitalism. It was his belief that under the Capitalist economic system, laborers were dehumanized and exploited. He believed that as people labored for multiple hours every day, they became alienated. The idea of alienation is an important part of Marx’s economic theory. As a person labors, he or she becomes alienated from society, the human race, and the object they produced. Author Jonathan Wolff points out five central ideas that Marx disliked in Capitalism: “1. Under Capitalism, the wages of the workers are literally minimal. This is a consequence of the fact that the capitalist is in, by far, the better bargaining position and to avoid starving the worker must be prepared to accept the very low wage that will be on offer: a wage just sufficient to keep the worker and family alive. 2. Work is Punishing. For the same reason the worker must accept appalling conditions, leading to overwork and early death. 3. Labor is degraded and one-sided. As the division of labour becomes more advanced, labour becomes more machine-like . . . 4. Labour has become a commodity. It is bought and sold on the market like any other commodity. 5. The workers life has become subject to alien forces. The demand on which the worker’s life depends is founded on the desires of the wealthy and the capitalists.”<sup>10</sup> In order to understand these issues, it must be understood that working conditions during the time of Marx’s writings were much different than today’s. Many people were forced to work in filthy factories with dangerous conditions for up to sixteen hours a day. Most

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<sup>7</sup> Hausman, *The Philosophy of Economics*, 124.

<sup>8</sup> *Ibid.*, 125.

<sup>9</sup> Hausman, *The Philosophy of Economics*, 127.

<sup>10</sup> Wolff, *Why Read Marx Today*, 30.

people could not quit, as this was most likely their family's only income (unless the children worked). Though these do not seem applicable to modern day situations, one must look retrospectively to Marx's lifetime and realize that conditions differed greatly from those today.

Karl Marx and other classical economists are well-known for the labor theory of value—a cringe worthy ideal for all champions of the Austrian school of economics. The simplest definition of the labor theory of value states that “the value of an exchangeable good or service lies in the amount of labor required to produce it; the source of profits under capitalism, then, is value added by workers not paid out in wages.”<sup>11</sup> This theory dictates that a particular commodity possesses value because of the labor that went into creating it. Marx, like Aristotle, asserted that in order for a fair and equal change to occur between parties, the items of exchange must be commensurable. Marx asserted that this could obviously be found in a common element between the two goods, but how does one solve this difficulty when attempting to exchange two completely different goods? Marx believed that the one common element among all goods is labor.<sup>12</sup> Marx claimed that just as value presented itself in two forms—use value and exchange value—labor had to forms as well. First is concrete labor; this labor creates goods for a particular purpose which translates into use values. Second is abstract labor; the main feature of the object created in this type of labor is its price, is exchange value.<sup>13</sup> The types of labor, according to Marx, ultimately cause conflict for us as productive beings in a capitalist society. We desire to make quality items so that consumers can use them, but we must also be concerned with selling those same items in the future and reaping revenue from its consequent exchange value. If the item lasts for an extended period of time, a consumer will not be likely to purchase another one in the short run and therefore the producer's potential to earn a profit from the exchange value is stifled. This, according to Marx, is against our productive nature as people and is another one of his indictments of capitalism.

Marx's labor theory of value included labor itself, what Marx called labor power. This is the worker's capacity to produce goods and services. In order to produce, a worker must be fit to do so; this means that he or she must be clothed, sheltered, fed, rested, etcetera, before he or she will be able to properly complete the job. Marx stated that the hours it would take society to feed, clothe, shelter, (etc.) the worker so that he or she is fit to produce, should dictate the worker's wage. To use an example from author David Prychitko, “suppose that five hours of labor are needed to feed, clothe, and protect a worker each day so that the worker is fit for work the next morning. If one labor hour equaled one dollar, the correct wage would be five dollars per day.”<sup>14</sup> Marx's and other classical economists' labor theory of value was accepted only until the late 19<sup>th</sup> century, at which time the Austrian economists introduced the idea of subjectivity in valuing commodities.

Karl Marx, though he has been placed in the classic school of economic thought with other pro-capitalists, is renowned as an anti-capitalist and a pro-communist. According to Marx, the way we are each born to a specific set of parents is parallel to the way in which we are each born into a certain class—we cannot change who our parents are and we cannot change the class in which we were born. Some people are born into the working class and will forever be workers; others are lucky enough to be born in the capitalist class and therefore will forever belong in it. For Marx, these classes were the bourgeoisie and the proletariat; the bourgeoisie are the wealthy capitalists while the proletariat is the poor working class. Marx noted that the throughout history, the wealthy, ruling class always controlled the means of production. Along with the production and thus the economy, this class usually controlled the

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<sup>11</sup> *Wikipedia, The Free Encyclopedia*, “Marxian Economics.”

[http://en.wikipedia.org/wiki/Marxian\\_economics](http://en.wikipedia.org/wiki/Marxian_economics).

<sup>12</sup> “Labor Theory of Value,” *Answers.com*. <http://www.answers.com/topic/labor-theory-of-value>.

<sup>13</sup> Wolff, *Why Read Marx Today?* 68.

<sup>14</sup> David L. Prychitko. “Marxism.” *The Concise Encyclopedia of Economics*.  
<http://www.econlib.org/library/Enc/Marxism.html>.

government, media, universities, and maintenance of the status quo.<sup>15</sup> In order to remove the wealthy class from their position as such, Marx advocated a revolution of the proletariat. In order to change the current political and economic ideologies, the economy, education, and the media, the proletariat would need to create its own ideology and revolt against the capitalist forces. This, according to Marx, is the only way for oppressed peoples to improve their station in life; they must overthrow the old regime and create a new one in their favor. The new favorable ideology is, according to Marx, communism. Communism is a classless, stateless society in which the means of production are held in common. In this system, competition is eliminated and everyone has equal access to everything. This is the ideal political and economic situation for Marx.

For Marx, capitalism breeds class-consciousness and is inherently unfair because it favors the wealthy and exploits the poor. Marx paints the classes in a constant struggle—the bourgeois struggles to maximize their profit while keeping their workers productive and the proletariat struggles to be treated fairly and receive appropriate wages. According to Marx each side has a right to what it wants and “between equal rights, force decides.”<sup>16</sup> Marx finds fault in the ideology and practicality of capitalism; its basic tenants are: little or no interference in economic affairs by the government, free and consistent market competition, private ownership, the ability for each individual to attempt to maximize profits.<sup>17</sup> The desire and ability to achieve maximum profits, private ownership, and lack of central planning are three of Marx’s indictments of capitalism. In order to exhibit one of the many ills of capitalism, Marx created the theory of surplus value. The surplus value is the “gap between the value a worker produces and his or her wages.”<sup>18</sup> The simplest example of this is the following example by Frank Elwell: A capitalist “hires a man at \$5 per hour. This man can also make one frame per hour. The material for each frame still costs \$10, she still sells each for \$20. Minus the material and labor costs, her profit is now \$5 per frame. This profit is possible only because there is a difference between the cost of the labor (\$5 per hour) and the amount of value added by the labor to the raw materials (\$10). In this case, the worker adds \$10 to the value of the materials in the course of his hour’s work, but is only paid \$5 for his efforts. This surplus value of \$5 per hour created by the worker is taken by the owner, and is called profit.”<sup>19</sup> The seeking and earning of profit by the capitalist led Marx to believe that the entire system of capitalism led to greed and inequality and would eventually crumble to the revolutionary proletariat. He believed there existed internal contradictions in the capitalist system that doomed it from the start:

1. Competition . . . implies winners and losers . . . causes the rise of monopoly capitalism. 2. The lack of centralized planning . . . results in the overproduction of some goods and the underproduction of others . . . causing . . . inflation and depression. 3. The control of the state by the wealthy.<sup>20</sup> 4. Creates social problems because of the great gap between the rich and the poor.

The flaws Marx found in capitalism led him to believe that communism would create the best political, economic, and social situation for citizens in every society. In his time and place, these indictments of capitalism may have seemed plausible because working conditions were much different in the newly formed capitalist society of Great Britain in the late-1800s. He believed that the flaws in the

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<sup>15</sup> Frank Elwell, “*The Sociology of Karl Marx.*” Rogers State University.  
<http://www.faculty.rsu.edu/~felwell/Theorists?Marx/index.htm>.

<sup>16</sup> Wolff, *Why Read Marx Today?* 50-51.

<sup>17</sup> Frank Elwell, “The Sociology of Karl Marx,” *Rogers State University*  
<http://www.faculty.rsu.edu/~felwell/Theorists/Marx/index.htm>.

<sup>18</sup> *Wikipedia the Free Encyclopedia*, “Marxian Economics,”  
[http://en.wikipedia.org/wiki/Marxian\\_Economics](http://en.wikipedia.org/wiki/Marxian_Economics).

<sup>19</sup> Frank Elwell, “The Sociology of Karl Marx,” *Rogers State University*.

<sup>20</sup> *Ibid.*

system would lead to the eventual breakdown of the wealthiest capitalist countries; thus far, history has proven Marx false, in that, it has only been very poor, economically unstable developing countries to fall to the grips of communism.

The comparison between Karl Marx and Adam Smith is interesting because each man has been placed in the classical school of economic thought, but the former is a champion of communism and the latter a champion of capitalism. The goal of this essay is to compare and contrast these political philosophers' economic theories and find the point at which their ideologies differentiated. Now on to Smith, a classical economist whose reputation has fared far better than Marx's in the 20<sup>th</sup> century.

Adam Smith was born on an unknown date in 1723. He studied moral philosophy at the University of Glasgow and Balliol College, but eventually left the latter and made a name for himself as a traveling lecturer. He later became a professor of logic, ethics, rhetoric, jurisprudence and political economy.<sup>21</sup> In Europe in 1776, Adam Smith released his *Inquiry into the Nature and Causes of the Wealth of Nations*; concurrently, the United States of America came into being. "A political democracy was born on one side of the ocean; an economic blueprint was unfolded on the other."<sup>22</sup> Adam Smith not only created an "economic blueprint" that defined the natural mechanisms of a free economy, but he was also a moral philosopher.

In addition to the *Wealth of Nations*, Smith also wrote the *Theory of Moral Sentiments* in which he discussed his moral theory about the nature of man and the world. In his writing, Smith demarcates a system of virtues, commercial and noble. The commercial virtues are self-interested and should be applied to reap success in the business world: prudence, justice, industry, frugality, and the like. The noble virtues are the more important out of the two types: generosity, gratitude, love, friendship, compassion, kindness, and the like. These types of virtues can be applied in both the personal and economic spheres of life separately, but in order to be a virtuous person, they must be applied in accord with one another. The most important virtue according to Smith is self-command. This allows a person to act with moderation within both the economic and personal spheres.<sup>23</sup>

Smith based much of his moral theory on the Impartial Spectator Theory. In short, this theory asks us to judge a person's behavior in an unbiased manner as if we had full-information about the situation and then base our conclusion on that. Smith says that because we cannot judge another person without personal bias, we need to disconnect ourselves from our own feelings (and own self) and act as a totally impartial spectator when judging another human being. This will lead to the fairest judgment possible and most likely a judgment based on sentiment. If we begin to understand why and how another person feels we will be likely to judge them without bias and less harshly.

There is much debate about whether or not the so-called "moral Adam Smith" is compatible with the "economic Adam Smith." Some scholars believe there is a discrepancy between his discussion of morality and virtue and his thoughts on capitalism fueled by self-interest; German scholars have coined this "Das Adam Smith Problem." Other scholars brush off this claim as mere misunderstanding. Richard Zeyss suggests that the problem has been misconstrued: "Smith's notion of moral judgment could not be reduced to the doctrine of sympathy alone . . . for Smith man's "virtue" consisted of at least three major elements: prudence, justice, and benevolence. Prudence was a characteristic of self-interested conduct—and also one particularly helpful in economic pursuits. Justice described a 'negative virtue,' conduct in accord with those public laws meant to restrain excessive self-interest. Finally, benevolence, while the

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<sup>21</sup> Wikipedia, *The Free Encyclopedia*, "Adam Smith," [http://en.wikipedia.org/wiki/Adam\\_Smith](http://en.wikipedia.org/wiki/Adam_Smith).

<sup>22</sup> Robert Heilbroner. "Adam Smith and the Origin of Capitalism," *The Worldly Philosophers*, 7<sup>th</sup> ed.(1999).

<sup>23</sup> Dr. Edward Younkins, "Adam Smith's Moral and Economic System." (Article, Wheeling Jesuit University, 2006).

highest form of virtue, for Smith was primarily a feature of private relationships.”<sup>24</sup> Many scholars, like Zeyss, have suggested that Smith’s economic and moral systems are completely compatible. Smith accounts for this by suggesting that the two levels of virtues exist in a hierarchical system, in order to be both a virtuous and successful person, one must employ both the commercial and noble virtues. Some people may choose to relish only their commercial virtues; the person may become successful in business, but not a completely moral being.

Adam Smith began writing on the importance of a free-trade economic system while he lived in mercantilist England. Smith had the foresight to realize that the mercantilist system was flawed. Mercantilism stressed the need for “large reserves of bullion”<sup>25</sup> to reap economic benefits. Smith disagreed with mercantilist theories and expounded on the importance of free trade. *The Wealth of Nations* sought to discuss just that, the wealth of the nation as a whole. Rather than focusing on how much land the rich had or what the king acquired, Smith discussed how each individual person could successfully reap his or her own economic benefits and thus add to the nation’s wealth.<sup>26</sup> He cited that in a free trade economy, a person has the ability to earn money and should then use it to purchase other goods (or capital to create their own business), which will then lead to growth in the economy. Smith believed that by earning and spending money, the economy would be stimulated and thus grow.

Like Marx, Smith realized the importance of production. Smith contended that production was the key to a growing economy. In Smith’s ideal, free trade society, average persons could start businesses, free from government intervention, and consumers would purchase from these producers at a price determined by the laws of supply and demand. Smith asserted that the innate function of the free market was determined by the simple laws of supply and demand. For example, if there is an increase in demand for product A, and a decrease in demand for product B, the price of product A will increase. The increase will occur because as consumers flock to producers to purchase A, the supply will become limited. This higher prices caused by the limited supply allows only the consumers, who are most willing and able to pay, to purchase the product. Concurrently (as previously stated) the demand for B has decreased; its price has decreased as well, hopefully enticing customers to purchase it merely to take it off the shelves of the producer’s storage. Eventually, the producer of product B will stop producing and move his land, labor, and capital to another, more lucrative business—perhaps in the arena of product A. This simple connection between supply and demand is the inherent free market mechanism that allows for the natural flow and efficiency of the market. Left to its own devices, the market will allow only the most competitive consumers and producers stay afloat. The free market fixes errors on its own. If there are shortages or surpluses the market, left to its own devices, will ensure that that the economy eventually returns to equilibrium. This is clearly why Marx was wrong about the necessity of central planners. In the free market, central planning is more burdensome than any naturally occurring problem in the market.

One of the most revolutionary aspects of Smith’s economic theory in *The Wealth of Nations* was the Invisible Hand. Smith suggested that in the free market each person is guided in his or her decision making by an invisible hand. The invisible hand leads us to make decisions that benefit us and the economy without our knowing it. In Smith’s own words:

“Every individual necessarily labors to render the annual revenue of the society as great as he can. He . . . neither intends to promote the public interest, nor knows how much he is promoting it. He intends only his own gain, and he in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. By pursuing his

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<sup>24</sup> Richard Teichgraeber III, “Rethinking Das Adam Smith Problem,” *The Journal of British studies*.

<sup>25</sup> *Wikipedia, The Free Encyclopedia*, “Adam Smith.”

<sup>26</sup> “Adam Smith,” *Biographies*. <http://www.blupete.com/Literature/Biographies/Philosophy/Smith.htm>.

own interest he frequently promotes that of the society more effectually than when he really intends to promote it.”<sup>27</sup>

Smith’s theory about the invisible hand explains the way in which the economy is interconnected. He gives the example of the amount of industries and thus laborers that each play a part in producing a wool coat. From the shepherd to the spinner to the sailor who transports the finished coats, each, in merely performing his or her own job augments the economy through productivity.

The importance of labor and productivity was the key to a free trade economy, for Smith. He discussed both exchange and use value, and thus his labor theory of value. In Smith’s case, the labor theory of value stems from spectator sentiment. If a producer puts labor hours into the production of an object, it warrants a particular exchange value depending upon those hours. According to Smith, “the spectator sympathises [sic] with the claim that bestowing time and pain on an object creates a reasonable expectation of use such that depriving the possessor of the object would constitute injury.”<sup>28</sup> In Smith’s view, as consumers, we understand and sympathize with the labor put into the object and thus accept that it warrants its specific exchange value. According to author Jeffrey T. Young, “a labour theory of value is, therefore, a logical outgrowth of the spectator’s sympathy with time and pain.”<sup>29</sup> In accordance with this theory, Smith also held that the natural price must compensate for the “time and pains . . . of acquiring a skill . . . along with the risk.”<sup>30</sup> To Smith, there exists a natural price of an object. This natural price, or value of the good, is dependent upon the labor hours and effort that went into creating the object. In the competitive market, however, the natural price may not necessarily be the market price: “The natural price need not function as the actual cost of a good in the marketplace. Competition, however, was expected to push the market price towards the natural price.”<sup>31</sup>

Smith asserted that capitalism was the most logical, lucrative, and moral political and economic system. In this system, individual people are free to own property and do with it what they wish, they can also spend and earn in the manner they see fit. Privately owned property combined with the desire to earn, spend, and act productively leads to the natural market functions of the free market economy. The free market economy is dictated by competition which leads to the fairest prices and causes only the most efficient producers and consumers to benefit. Capitalism, for Smith, is not a political/economic philosophy that only benefits the rich. In his mind, everyone, because private property exists, has the chance to own, create, and earn their own living. Because of Smith’s extensive virtue theory he relies heavily on the idea that ideally, many capitalists will master the higher level of virtues as to avoid becoming greedy and selfish. But, on the chance that they do not, the virtue of self-command, both a noble and lower virtue, will reign in any selfish desires. Smith’s capitalist ideals are based on a moral system; he, unlike Marx, wants to avoid revolution at all costs and seek peace and justice at all times. “The peace and order of a society is of more importance than even the relief of the miserable.”<sup>32</sup> It is clear that Smith would in no way agree with a revolution of the proletariat; but in his eyes, one would never be necessary. Because of the natural and logical benefits of capitalism, each person- from the poorest to the richest has the potential and the capability to better him or herself in the capitalist economic system. For Smith, the answer to a highly functioning civil society is a free market—it is the most natural economic system.

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<sup>27</sup> Ibid.

<sup>28</sup> Jeffrey T. Young, *Economics as a Moral Science* (Edward Elgar Publishing: Cheltenham, UK, 1997), 87.

<sup>29</sup> Ibid., 86.

<sup>30</sup> Ibid., 87.

<sup>31</sup> *The Victorian Web*, “Adam Smith and the Division of Labor,”

<http://www.victorianweb.org/economics/division.html>.

<sup>32</sup> Jeffrey T. Young, *Economics as a Moral Science* (UK: Edward Elgar, 1997), 136.

After concluding this research, it is rather simple to see where and how Karl Marx and Adam Smith diverged from one another's political and economic theories. Smith wrote *The Wealth of Nations* during the late 1700s, during which a mercantilist society still existed. He realized the need for a better and more efficient economy that would benefit each citizen and the entire nation at the same time. A system of free trade was the most obvious answer to this because it allowed every citizen the opportunity to own their own property and seek a living in the way he or she saw fit. If the person was dissatisfied with the choice he or she made, a free trade society allowed the freedom and ability to move unrestrained from one occupation to the other. Well, that is how it is supposed to be. Smith merely envisioned the free society, he did not actually live it—and that is where he and Marx differed. Marx wrote in the late 1800s, when the industrial revolution was in full swing. He personally saw and studied the filthy and dehumanizing conditions in which British factory workers labored. It is really no wonder that Marx thought capitalism was the source of every ill in society. He was only exposed to workers who labored long hours for meager wages while rich factory owners' reaped benefits. In addition to his geographical and historical background, there are two key reasons as to why Marx indicted capitalism for all the problems in the world, these also exemplify his error: 1) He believed that the class in which a person is born is the one in which he or she will remain. He blames capitalism for the very thing it seeks to change. The beauty of a capitalist system is that it is free—we can own property, start a business, and live our lives as we so desire, provided we are not harming anyone. This freedom allows even the poorest person the chance to become successful. Our status at birth does not necessitate a particular outcome. Using free will and reason, we have the ability to make ourselves into what we so desire. What Marx asserted about the capitalist society was faulty, if in any system, it is the capitalist system that allows people the opportunity to rise above a lowly birth status and reap the benefits that society has to offer. 2) He could not foresee the end of terrible working conditions (for the most part) thanks to government safety regulations and labor unions. There are two solutions that people in poor working conditions are presented with 1) quit 2) change it. In Marx's time, factories were located in small towns, people had to walk to their place of work, and most often worked in a place that was in the closest proximity—meaning, if he or she quit the job, he or she would not work at all. Quitting was out of the question. Therefore, Marx saw factory work as punishing, dehumanizing, and coercive. This is no longer the case. The 20<sup>th</sup> century saw the inception of incredible innovation and technology, one example is the automobile. It allowed people to expand their horizons, so to speak. If the working conditions in one's town's factory did not meet the laborer's needs, he or she could now drive to a different factory and seek employment there. The automobile increased freedom for people in way that allowed them to not merely settle for a dissatisfying work environment. The other option mentioned was to change the circumstances in which one is in; we now have labor unions and laws that seek to protect workers from hazardous and exploitative working conditions. Some people do not agree with this government intervention—Smith would not, but Marx probably would. Labor unions and laws protect the worker from mistreatment by the employer. Laborers no longer have to work sixteen hours a day for measly cents. Working conditions have improved dramatically, though there is debate as to the legitimacy of government intervention, which has generally kept both employer and employee content. Perhaps if Marx could have foreseen these potential improvements in society, he would not have encouraged a violent overthrow of the bourgeoisie. Of course, there is no way he could have predicted the changes that occurred in the 20<sup>th</sup> century. After being exposed to the filthy and depressing conditions of the working class, he simply made an ignorant accusation against capitalism.

Though Marx and Smith diverged drastically in their political ideologies, their economic theories were similar. Both men held the labor theory of value. Each believed that the number of labor hours put into an object created the value and thus the worth of the object. This theory was successfully refuted by the Austrian school of economics' theory of subjectivity. From this theory, it follows that a product possesses value only if there exists a valuer. The object must be useful to a consumer in some way; if it is not, it is not valuable. The consumer's feelings or subjective analysis give the object its value. Because of the laws of supply and demand, if an object warrants a high use value it will be commensurable with a high exchange value. We have seen that the more desirable or valuable an object is, the higher the price

will be. This is the most logical theory about price and value. The labor theory of value is incorrect because even though hours of labor might have gone into building an object, if no one wishes to purchase it, it has no worth and cannot be made commensurable with anything else.

In writing this report on Marx and Smith I learned a great deal in regard to how much our current economy was affected by their ideas, mostly Smith's though. Marx had brilliant insights into the workings of an economy and thought extensively about the mathematical side of economics. His radical political theory and influence on past violent communist leaders has placed a dark cloud over the teaching and study of him. Political theory aside, however, Marx's writings are valuable and insightful in regard to the specific mechanisms of an economic system. Smith is not called the "father of modern economics" for naught. The idea of the laws of supply and demand and the invisible hand can be found in high school and college economics textbooks around the globe. Aside from the mistaken labor theory of value, Smith's economic and moral theories are respected and employed in teachings, analysis, and application of modern free trade economic systems today.

### Notes

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