

EE401 Political Economics

Assignment #1

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Capitalism is an economic system in which investment and ownership of the means of production, distribution, and exchange of wealth is made and maintained chiefly by private individuals or corporations, especially as contrasted to cooperatively or state-owned means of wealth. On the other hand, Marxist has a strong belief that there is inefficiency manifest themselves as social contradictions in society in the form of class struggle which leads to compensate for falling rates of profit by driving down wages, cutting social benefits and pursuing military aggression. Under Marxist theory, private property in the means of production would be superseded by co-operative ownership. Therefore, as opposed to Marxism, Capitalism has been more historically born out due to reasons in which categorized into three sections; the division of labor, self-interest, and the free market.

Division of labor is the first benefit from capitalism. Adam Smith, the father of economics, said, "the division of labor by reducing every man business to some one simple operation and by making this operation the sole employment of his life necessarily increases very much the dexterity of the worker."¹ It means putting a man with the right skills to his preferred task is better than making him do a bit of every task, thus not maximizing his ability. Hence, the productivity is higher than Marxist system² because Marxist uses everyone to do the any task without classifying what he is good at, for example, China whose leader has adopted the concept of Communism from Marxism. Mao Zedong, the leader of Chinese Communist revolutionary, adopted the concept of Marxism that all men should do everything at the same time and they would be rewarded with basic needs, such as food and shelter at the same amount equally.

However, Marxist argued on two aspects of the capitalism on division of labor issue. Firstly, it would be an inequality for the poor people, who will then get suppressed by the rich

¹ Adam Smith, Economic Concepts. March 9th, 2012. <http://economicsconcepts.com/division_of_labor.htm>

² Unknown, What is Marxism. March 9th, 2012. <<http://www.allaboutphilosophy.org/what-is-marxism-faq.htm>>

people, as known as capitalists, because workers have to obey and follow the demand of capitalists and get a low wage that is insufficient for the standard of living. Secondly, an amount of poor people will be unemployed because capitalists can choose the only skillful person to work with and let unskilled person unemployed. On the other hand, Marxist gives everyone an equal opportunity to do task and has basic needs to survive.

Nonetheless, in the capitalists' point of view, they can rebut both of Marxist's arguments. Firstly, during Karl Marx's regime,³ the industrial revolution⁴ has already happened. In 19th century, the labor union already existed so when workers could form a union, or former known as craft union, it implies that labor union had a bargaining power against the capitalists. Therefore, if capitalists suppressed labor too much, labors in a union could go for a strike, which suggests that the productivity of factories would be shutdown, thus the existence of labor union⁵ led to more power for labor. Secondly, Marxist claimed about unemployment of the poor will be very high, but the capitalist argues that it would not be high because with division of labor and industrial revolution already occurred, factories' owners could produce a lot of products more than before, which led to a higher demand for labor in order to cope with the increase in demand for goods. Thus, there was a lot of demand for labor. A lot of workers will be employed to fulfill the increase in the productivity and led to growth of the economy. Therefore, the division of labor is needed in the system and it can create tasks for people and it has labor union to help them in the case of inequality of workers.

The capitalist argues that individual rights are above collective rights. Thus people have the rights to private property, which means that one who owns the final product also

³ Steven Kreis, *January 30, 2008*. March 9th, 2012. <<http://www.historyguide.org/intellect/marx.html>>

⁴ Martin Kelly, *Overview of Industrial Revolution*. March 9th, 2012.
<<http://americanhistory.about.com/od/industrialrev/a/indrevoverview.htm>>

⁵ Brent Radcliffe, *June 28 2009*. March 9th, 2012. <<http://www.investopedia.com/articles/economics/09/unions-workers.asp#axzz1ohfHjZLQ>>

owns the means of production. With property, when one man sees another being successful it drives him on to compete against others in a bid to provide the best goods into the market. However, Marxist views success as a man aiding another man and sharing the wealth together, leaving none behind is an act of purity where man becomes a more humane state. Marx also argued about property that the community should have ownership over the means of production and the final product, since property is in the hands of a few well-off people. The Capitalists counter arguments is that during the Industrial Capitalism there are many factories that needed employees to run and these would provide jobs to the workers. Moreover with the development of coins during feudalism, lords collect labor hours in terms of rent and the rest of the profit can be kept by workers depending on how hard they work. Therefore, workers still earn extra earnings even though they still owe rent to lords.

The individual conceptualizes the idea of self-interest which means one will decide the best labor to be employed and thus will increase the number of output in the form of money or quantity. This was especially expanding during the Industrial Capitalism where factory production created division of labors, which installed the need for employment. Furthermore, the increase in mechanization agriculture led to vast surplus which confirms that individuals are profit seeking. The effect is that the industry also benefits from individual gains and develops the industry even further. The amount of profits gained from each industry will then determine how much of capital investments will be allocated to each, which will then stimulate growth and welfare. Marx had a different viewpoint that profits would be a zero sum game that the proletariat would not capture any of it and only the capitalist class would rake in the profits, which come from exploitation of labor. Marx had a labor theory of value which is the number of labor working hours going into the product determines the value of the product and any profits made would go to the public and thus be distributed evenly, not belonging to only the capitalist. People needed to have class-

consciousness and sense of where they belong to, and each private interest will depend on which class they belong to (class interest). The poor will feel they are getting poorer while the rich are getting richer. The Classics counter argument would be that the desire to gain more and more is inherent in humans and that we could not eliminate it but it could be channeled. There is also the idea of taxation from the Capitalist that will help those in poverty. Moreover, since society is maximizing the utility of capital, it will create more goods, which develops to a better society overall for everyone to enjoy. There are also some duties of the state and that is provide public works, which in Smith's case means, better education and better commerce for all.

Another main idea from the classical economists is that the market always clear itself, thus the degree of government intervention should be kept at the minimal. According to the classical theory, the market is separable from the rest of the society and that the market is primary than the rest of the society. From these two key insights, Adam Smith has demonstrated that the market should exist as an independent entity. The more that the government intervene, the less efficient it would be. This is a total contrast to the Marxist ideas. The Marxists believe that the government should step in to control the market and channel the productions equally to the population, due to the fear of the capitalists taking advantage of the proletariats.

Classical economists believe that there is harmony of interests, where people are motivated by one's self interests. Hence, freedom is encouraged because the suppression of the government might entangle this harmony of interests. This is a result from Smith living in England where the country was relatively free and its economy was prosperous during the Industrial Revolution in the 18th-19th centuries.⁶ Since people are rational, they are perfectly

⁶ 'Industrial Revolution.' *Fordham University*. March 10th, 2012.
<<http://www.fordham.edu/halsall/mod/modsbook14.asp>>

capable of defining their interest. These interests will drive the market to produce what is wanted and abandon the undesired goods and services, also known as the invisible hand concept. Consequently, this leads to efficiency by maximizing everyone's utility. Therefore, the society is flowing because of human beings' voluntary decisions, which is also stated in the Scottish Enlightenment. As humans are rational at making their decisions and achieve it in the most productive manner, thus government should not get involved. Once the government gets involved in the market system, then the incentive for one to try his best to get one's want will be wrecked. This is due to the government is incapable of improving individual decisions because they would not know what each individual wants exactly.

These ideas have been historically born out because Marxist nations, such as Germany during Hitler domination, were destroyed in a few decades. Whereas, capitalist nations, such as England, are still ones of the lead nations in the world. This evidence denotes that ruling a country in a totalitarian way as did by Marxism will create unique individuals like Stalin, and thus will only lead to its own destruction, even though with a few exception like China. But people in capitalist countries are more satisfied with its ruling system because they are able to seek their own self interests. The fact that nowadays, almost every country in the world utilizes the capitalist system, implies that it suits the like of its population, and hence is supported by its people.

In conclusion, from the argument explained in this paper, Capitalism appears to be reasonable with a better argument than Marxism. It could be seen from the historical records until nowadays that capitalism is accepted by the society rather than the Marxism. This suggests that the theory of Capitalism could be adjusted, for example, Neoclassical and Keynesian, to fit to the society more than Marxism. Therefore, Capitalism is more favorable than Marxism.