EE401 Essay 1

Chayanin 5104640247
Sorrabhol 5104641161
Varote 5104641336

The classical economists argued that capitalism would lead to people acting in a better, more co-operative way, while the Marxist economists argued that capitalism would lead to class conflict and the collapse of capitalism in a great revolution.

Through the development of this work we will be able to get to know more about certain events in the history of the economy, which are of great importance. This paper will discuss topics based on the Political Economic in-depth knowledge of various aspects of Capitalism, advantages and disadvantages of both argument, also known the school of economic thought.

One of the prominent clashes of socio-economic analyses in the last few centuries is undoubtedly the clash between the classical economists and the Marxist economists. Many disputes emerged as the two sides tried their own way to convince another. It is not surprising, however, that age-long discussions of this kind of dispute have seen its light as of today.

Classical economics is usually regarded as the first school of modern economics. Its beginning is marked by Adam Smith's The Wealth of Nations (1776). Classical economics strongly opposed the mercantilist theory that prevailed around that time, especially in Great Britain, and accompanied the socio-economic changes after the industrial revolution. Apart from Smith, other economists who greatly contributed to this school include Jean-Baptiste Say, David Ricardo, Thomas Malthus, and John Stuart Mill. In modern day, classical economics is more represented by neoclassical economics, which dominates the field of economics today.

Marxist economics, as the name suggests, is based on the works of the German thinker Karl Marx. Marx's critical analysis of capitalism is demonstrated in his major work Das Kapital (1867). Marx's politico-economic ideology, especially his advocacy for socialist revolution, inspired many revolutionary movements around the world, including the revolutions in Russia and China.

Classical

Before we delve too deep into the discussion, we must see what all these ideas of classical economics are all about. Key points of classical economics are as follows:

First, there are 3 assumptions governing classical ideas; flexible prices, Say's law, and equality in savings-investment.

- *Flexible prices*: With flexible prices, market can quickly achieve equilibrium through changing of prices, without government regulations and market control. In fact, it can eliminate any shortage or surplus that exists. Thus balancing quantity supplied and quantity demanded with the help of adjusting prices.

- *Say's law*: Famously quoted as "Supply creates its own demand", this law states that aggregate production of goods and services in the economy creates just enough income to purchase all the outputs. Therefore an event of aggregate surplus or shortage is rare and far in-between.

- *Equality in savings-investments*: This rule says that savings by the household sector match investments from the business sector. This assumption helps Say's law to be held as when consumption decreases, investment can act as a substitute and purchase the goods and services from household. Moreover, the notion of flexible interest rates can be assumed here since interest rate is also one kind of price.

Second, macroeconomics, the theory of the the aggregate, is operating on the same principle as microeconomics that guides all phenomena in the market.

Third, The classical economists believe in self-regulation as the economy is always capable of achieving the natural level of real output which is obtained by when the resources are fully employed.

Fourth, classical economists believe that full employment can be achieved without government intervention. Thus it has a kind of auto-correction in itself. Moreover, government intervention, in the eyes of classical economists, does more harm than good.

Adam Smith emphasized the importance of production, similar to Karl Marx, but in totally opposite way. Smith's assumed free trade economy illustrates a world where virtually everyone can start their own business, without government intervention, at which prices are determined by the law of demand and supply.

One of Smith's revolutionary ideas in the Wealth of Nations is 'invisible hand'. The invisible hand leads everyone to mutual benefit for both individual and society as a whole. This can be achieved by just having each individual pursue his or her own interest. Competition will push things to its own place.

The importance of labor and productivity has to be stressed for a good free-trade economy. In Smith's view, a labor theory of value is then a logical outgrowth of the spectators' sympathy with time and pain, of acquiring a skill, along with risks. He asserted that his theory of capitalism is the most logical, beneficial, and moral system. Smith's ideas are based on heavy moral system; he seeks peace and justice at all times. Smith would not agree with the revolution of the proletariat, and even be unnecessary. Overall the solution to the best society relies on free market.

Marxist economics

Karl Marx offered his analysis of capitalism in *Das Kapital, Kritik der politischen Ökonomie*. In the first volume, the only one published in his lifetime, Marx concluded that capitalism was essentially an exploitative relationship between the capitalists and the wage workers, or the bourgeoisie and the proletariat.

An important foundation in Marx's analysis of capitalism is the labour theory of value. Labour theory of value is not exactly a new invention by Marx. Rather, Marx developed it further from the idea of David Ricardo. In short, the theory proposes that the exchange-value of commodities corresponds to the amount of labour put into it. Since the exchange-value systematically equals to the labour, in order to reap profit, the capitalists have to take advantage from the wage labourers. This means the workers would be hired only by the wage enough to maintain their lives, and the work hours would be extended.

In capitalism, according to Marx, the means of production, i.e. tools, factories, lands, etc., would be controlled by the few, and the many would be left with nothing but labour to sell. This would lead to the state that people would have no choice but to sell their labour to the capitalists, in the exploitative relationship.

Therefore, in Marx's view, the class interest of the bourgeoisie and the proletariat are in conflict, as the former reaps the benefit from the labour by the latter. The oligpolistic bourgeoisie would be the ruler in the capitalist mode of production, similar to the landlords in the feudal mode before capitalism, or the slave masters in slavery. Marx predicted, and in a way, advocated for, the destruction of capitalism. He argued that since the size of the proletariat would grow exponentially, ultimately there would be a majority revolution to topple the minority bourgeoisie.

Arguments against Marxism

Marx's arguments appear very logical, but it requires his basic assumptions to make sense, which they are not. Historical arguments against Marxism exist and it can be demonstrated from this view that he is not quite right.

First, what Marx called 'spontaneous' division of labor is what is found on technologically primitive societies. It divides labor according to their natural/biological characteristics. Thus the physically capable will become a hunter-gatherer. Therefore Marx simply implies that society creates division of labor. Ludwig Von Mises, on the other hand, cited human nature results from a basic need of survival.It is a very basic form of division of labor: "The most basic form of the division of labor…is that manifested in the sexual act. It takes two people each performing a unique role to produce a third." Ludwig Von Mises tries to convince that it is division of labor that creates society. The truth is that human formed society out of self-interest, originating from the idea of survival. This kind of idea totally dismisses Marx's conclusion that we should have a society for the sake of society. Economists on the side of capitalism, on the other hand, would say that competition, in form of survival, is an ingredient for well-being.

Second is a fatal flaw regarding labor theory of value. It is all equal in terms of necessity, for Marx, to society, while being believed that each work is of equal value. Marx asserted that a market or exchange value of any commodity is the amount of labor in it. However, history and economics have proved that the value of each commodity is not from the amount of labor alone, but from a demand and supply of that commodity. Demand is a subjective value placed by the buyer the price at which he or she is to pay with an amount of quantity. Supply is the amount of goods available. Marx would say that physician and farmer are equal and ignore the fact that it takes more training to be a physician and requires deeper knowledge. Marx saw everything in terms of economics, downplaying each factors such as social, political, or emotional sides of human. It is very impractical this way to deny, or even acknowledge, the value of non-monetary differences. The skills of each person will tend to be underutilized. The relevance of this theory of Marx needs scarcity to not exist. If somehow there are unlimited resources then Marx's argument might make sense. Classical economics, in terms of capitalism, would address labor value according to other area of inputs as well; fatigue, skills used, among other things, will be awarded. It is a more logical way to evaluate things with more dimensions.

Incentive to work is an area that is the key to market economy, but rarely shines in Marxism. Since government determines supply and demand in the economy, it is almost guaranteed that what you produced is going to be sold eventually. Quality of those goods is not going to improve. There is no such reason to improve what you are doing and instead just focus on meeting government's production requests. In Marx's words, "Communism 'makes it possible for me to do one thing today and another tomorrow, to hunt in the morning, to fish in the afternoon, rear cattle in the evening, criticize after dinner, just as I have a mind, without ever becoming hunter, fisherman, shepherd, or critic." Without experts, progress will be much harder to obtain, innovation will eventually lack. If men can learn one different thing each day and perform different task each day without an effort of learning first, then Marx could be right. What we saw in reality is that it took an amount of effort to master one thing and required much more effort to master different things every day.

Also one of the many arguments against Marxism is about the way Marxism was adopted. It is the case that economies under Marxism were almost never in an efficient level. There will be a wrong level of price and quantity; an excess of either quantity demanded or quantity supplied at each level of price. Central government in such an economy will not let prices do their work; they don't understand how prices work. What government officials do is about how they control the whole thing, deliberately assuming they are superior in decision making, and rarely it was the case. This argument suggests Marxist economy would never be in a better shape than market economy.

Finally, The term 'consciousness' was coined by Marx to refer to what we know as 'common sense'. He knew that his ideas are based on a set of assumptions that is differed from consciousness. Instead of accepting his ideas are false, he thought that it requires a 'transformation of consciousness' to apply Marxism ideas to real life. The problem lies in this transformation process. While it may be true that reality and consciousness are related, it is unlikely that it will be a rapid change. Marx himself believed that there would be a natural social change to evolve from market economy into Marxism. In reality, most of the countries that subscribed to Marxism underwent many bloody revolution, in which eventually led to a complete control of the central government. We can conclude that changes require a slower system of evolution instead of a fast-track revolution, otherwise nothing significant is achieved. Capitalism addressed this area by simply ignoring what Marx said by citing successful cases of capitalism without any use of change abuses.

From evidences above suggests impracticality of Marxism to today's economy. It is an idea that is incompatible to the current stage of evolution and rarely usable, let alone to compete with classical economics.