

**How do the economic theories of Adam Smith and Karl Marx differ in their views on human nature, labor, the role of the state, progress, and capitalism, and how have these ideas influenced modern economic thought and policy?**

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**ABSTRACT**

*This research paper examines the work of two of the most famous contributors of modern economics: Adam Smith and Karl Marx. Set in the wider backgrounds of Enlightenment and Industrial Revolution, the paper makes a thematic comparative study of the main concepts developed, such as human nature, labor and value, the role of the state, vision of progress and criticisms of capitalism. Based on the original sources: the Wealth of Nations and Das Kapital, but with a broad selection of secondary sources and statistics this paper will explain how the ideas propounded by Smith on the necessity of free markets, economy of specialization and the self-interest differ strongly with Marx's vision on class conflict, surplus labor and exploitation that exists in capitalism. The paper also looks at their perennial legacies in modern economic systems with respect to the neoclassical economic school and liberal capitalism in reference to Smith, and socialist theory, heterodox economics and inequality commentary debates in regard to Marx. Due to the use of data-driven graphics and historical study, the study highlights that the debate concerning market regulation, inequality, and the changing role of a state in global economics still includes both Smith and Marx. Instead of portraying their thoughts as incompatible, the paper argues that a comprehensive understanding of modern economics requires an inclusive approach that draws on the insights of both intellectuals.*

**INTRODUCTION**

History of economic thought has been characterized by giant minds whose theories formed the basis of the modern economic systems. Some of the most influential people include Adam Smith and Karl Marx- two philosophers whose opinions on economics, society and human behavior have had significant and contrasting effects on the evolution of capitalism and socialism. Although these two thinkers lived almost a hundred years apart and were anchored in entirely

different circumstances, they both attempted to delve into how economies functioned, how wealth is produced, and how it ought to be shared.

Adam Smith was a Scottish economist and moral philosopher in the 18th century and is famously regarded as the Father of Capitalism. His seminal work, *The Wealth of Nations* (1776), introduced key concepts such as the invisible hand, division of labor, and free markets. He suggested that the less the government intervention the better and that people acting in their own self-interest will eventually contribute to the greater good of all (society).

Karl Marx, a 19th century German philosopher, economist and revolutionary, on the contrary, was a foundation of the socialist and communist idea. In his key texts, such as *The Communist Manifesto* (1848) and *Das Kapital* (1867), Marx critiqued the inequalities of capitalism and argued that the working class (proletariat) was being exploited by the owners of capital (bourgeoisie). His ideal society was classless in which means of production are communally owned and wealth is shared equally.

This research paper has following objectives: -

- Learn about the histories and philosophies of Adam Smith and Karl Marx.
- Contrast and compare their central theories in economics and their assumptions.
- Examine the historic impact of their thinking on capitalism, socialism and economic policy in the world today.
- Consider how their legacies are still applicable to economic and political debate today.

The paper compares Smith and Marx thematically by looking at their key areas of divergence, including their perspectives on human nature, labor and production, value and capital, the role of the government, and inequality. These themes will be discussed in historical context and connected to their enduring impact in the economics of today.

Although Adam Smith and Karl Marx differed sharply with their arguments about capitalism, markets, and state intervention, these two personalities provided lasting contributions about economic systems. The paper proposes that the ideas of Smith on the freedom of the individual and the efficiency of the market and those of Marx on the class struggle and social justice are two periodic lenses through which economic thinking in the modern world still continues to be defined. Recognizing these differences (and the causes of these differences) illuminates the fact that economics is as normative as it is positive, as concerned with values and vision as it is with data and models.

## **METHODOLOGICAL NOTE**

In this research paper, the key aspects of economic theories of Adam Smith and Karl Marx will be analyzed using the thematic comparative analysis approach. Rather than conducting original empirical research, this study draws upon a wide range of primary texts (such as *The Wealth of Nations* and *Das Kapital*), secondary literature (including academic books, peer-reviewed articles, and credible economic databases), and quantitative data from institutions such as the World Bank, UNIDO, and OECD.

The trends in the comparison are arranged under major conceptual areas, such as human nature, labor and value, purpose of state, visions of progress, and criticism of capitalism. Where applicable, data-based visuals were incorporated to explain the long-term trends or to show that both thinkers continue to be relevant to this day. This strategy is not aimed at qualifying either of the thinkers as superior to the other but to thoroughly evaluate their individual impacts on the origins, and development of contemporary economic thought.

## **HISTORICAL AND INTELLECTUAL CONTEXT**

To examine the economic theories of Adam Smith and Karl Marx it is necessary to go beyond what they wrote and into the times and context in which they lived that influenced their thinking. Smith and Marx were contemporary with dramatically different worlds, influenced by varying economic, political and philosophical currents. Smith's work was born during the Age of Enlightenment and the early rise of capitalism, while Marx wrote in the midst of the Industrial Revolution, responding to the realities of a fully developed capitalist system. The difference between their historical and intellectual context profoundly shaped how both of them thought about economics, labor and society.

Adam Smith (1723–1790) lived during the 18th century, a time commonly referred to as the Age of Enlightenment. The era was characterized by great faith in reason, personal freedom and scientific advancement. Philosophers such as John Locke, Voltaire, and Montesquieu advocated natural rights, rule of law, and the existence of human rationality to advance societal progress. This intellectual climate influenced a Scottish moral philosopher, Smith, who applied Enlightenment principles to economics.

Smith was a writer in a period when society was transitioning from feudalism to early capitalism. In Europe, and Britain in particular, there was emergence of private property, wage labor, and market-based trade. The older economic theory of mercantilism, which focused on the government regulation of trade and the amassing of gold, was beginning to yield to liberal market economies. Smith regarded this change as beneficial and capable of raising productivity and human well-being. His most famous work, *The Wealth of Nations* (1776), was a reaction

against mercantilist thinking and a vision for a new kind of economic system based on individual self-interest and limited government intervention.

One of Smith's intellectual influences was John Locke, who had argued that property rights and labor were the basis of political and economic life. Smith went further to demonstrate how division of labor and specialization as well as competitive markets could make nations prosperous. He held that by leaving people to follow their own economic interest in a system of justice and law, the whole society would be benefited which is popularly known as the invisible hand.

Karl Marx (1818–1883), writing nearly a century after Smith, encountered a very different world. By the mid 19th century, the industrial revolution was fully underway. Small workshops had given way to factories and the urban centers were growing fast as the rural population migrated to the cities in search of employment. While industrialization brought tremendous advances in production, it also led to harsh working conditions, child labor, low wages, and a growing gap between the wealthy elite (the bourgeoisie) and the working poor (the proletariat). Marx saw that instead of bringing overall prosperity, the capitalist system was concentrating wealth and power in the hands of the few and exploiting the many.

One of Marx's most profound philosophical influences was German Idealism, specifically Georg Wilhelm Friedrich Hegel, who thought that history went through a dialectical process of change, a conflict between polarities that resulted in development. This was adopted by Marx who interpreted it in a materialist way becoming what is called historical materialism. He claimed that ideas were not motives of history, economic forces were. To him, history consisted of a sequence of class conflicts between oppressed and the oppressors- feudal lords and serfs, capitalists and the workers.

Marx's critique of capitalism was laid out in works like *The Communist Manifesto* (1848) and *Das Kapital* (1867). He argued that capitalism was intrinsically unstable and exploitative and based on the necessity to drain surplus value out of workers. He was of the view that capitalism would ultimately destroy itself through its own contradictions to usher in a classless, stateless society in which the means of production were held in common.

Such radical differences in their circumstances are the reason why the economic vision of Smith and Marx differs radically. Viewing the promising dawn of capitalism, Smith regarded markets as drivers of progress and individual liberation. He concentrated on how voluntary exchange and competition would build prosperity. However, Marx did not observe capitalism in its infancy, but in its most violent phase. It had become to him a system that commercialised human labour and estranged men and women workers from their labour.

Such alternate perspectives were not merely responses to the economy, but to whole systems of thought. Where Smith had been sanguine in the capacity of markets to reconcile private interest with public good, Marx had found systemic injustice and historical inevitableness in the failure of capitalism. Though Smith inspired the intellectual wing of classical liberalism and free-market economics, Marx would subsequently inspire socialist revolutions, labour movements and the development of Marxist economic theory.

### **ADAM SMITH'S ECONOMIC THOUGHT**

Adam Smith, often called the “Father of Economics,” laid the intellectual foundation for modern capitalism through his landmark work, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776). This book altered how people believed in trade, value, work, and the government’s job. Smith had founded his economic philosophy on the Enlightenment ideas of reason, freedom and individualism. He held the doctrine that people acting to advance their own interests might accidentally advance the interests of the public, and that markets left pretty much to their own devices might effectively regulate economic activity. Smith remains an important force in the economic policy, liberal democratic process, and the discussions on government intervention in the economy.

#### ***The Wealth of Nations***

*The Wealth of Nations* is a highly systematic and extensive discourse on economics which deals with the production, distribution and accumulation of wealth. Coming at a period when mercantilism, a theory that stressed the maximized government regulation of trade and gold stocks, was the accepted approach to economic thought, Smith's work contradicted this theory by forming the concept of free-market ideology. The book is split into five parts, which address the various aspects: the causes of productivity, the nature of capital, the role of the state, economic development, and public finance.

As opposed to encouragement of selfishness, Smith evaluated how self-interest behaviour when performed under a competitive environment governed by rules and justice would result in an efficient outcome for the society. He stressed and emphasised on specialization, free exchange, and restriction of state intrusion- which were to be encapsulated to laissez-faire economics much later.

#### **Key Ideas in Smith’s Economic Philosophy**

##### ***Invisible Hand***

The so-called invisible hand is, perhaps, the most well-known metaphor in economics: it symbolizes the idea that people pursuing their own interest tend to promote the interest of the whole society. Take the case of a baker; a baker does not bake bread because he or she wishes to be generous, but to make a living, but by doing so the baker nourishes others.

Smith famously wrote, *"It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest."*

This notion implies that a free-market system, left to the voluntary interplay of supply and demand, can coordinate a complex economic activity without central planning. Prices are used to adjust; resources are allocated, and efficiency is obtained not by planning but by decentralized decisions.

### **Division of Labor**

Smith attached huge significance to division of labor- subdivision of production into specialized activities- as a source of economic advancement. He gave an example of a pin factory to demonstrate that breaking work down into steps could improve productivity by a huge factor. A single worker could only produce a few pins in a day, but a team of ten workers who specialized in pin production could produce thousands of pins.

Smith notes, *"Ten persons... could make upwards of forty-eight thousand pins in a day... [but] if they had all wrought separately and independently... they certainly could not each of them have made twenty."* (*Wealth of Nations, Book I, Chapter I*)

Sharing of work enhances efficiency, fosters innovation and promotes the creation of exchange and markets. But Smith had also cautioned that too much specialization would numb the mind and soul of the laborers, thus in his opinion education must come with industrialization.

### **Laissez-Faire Capitalism**

Smith proposed what came to be known as laissez-faire capitalism- a system whereby government intervention in economic activities is minimal. His views were that what to be produced, how much of it, and at what price should be based on competition rather than regulation. It should be noted, though, that Smith did not advocate the total lack of government.

He identified significant state functions in:

- Provision of public facilities such as infrastructure and education
- Justice and contracts

- Securing property rights

Therefore, the vision of capitalism that Smith had was not anarchic, but it relied on the presence of a legal system that would oversee healthy competition and the freedom of the individual.

### **Self-Interest and Moral Sentiments**

Although self-interest is a dominant concept in the economic theories of Smith, it is worth mentioning that the theorist did not synonymize it with greediness and selfishness. In an earlier work, *The Theory of Moral Sentiments* (1759), he had maintained that “*How selfish soever man may be supposed, there are evidently some principles in his nature... which interest him in the fortune of others.*” (*Moral Sentiments, Part I, Section I*).

To Smith, moral behavior and economic behavior did not occupy different worlds. As a matter of fact, markets operate optimally in a scenario where people are moral and truthful since trust and honesty are the foundation of all economic transactions. It is this moral basis that Smith is said to differ with those who would later apply his work to support unregulated, exploitative capitalism.

### **Criticisms and Legacy**

There has been a lot of controversy in regard to the theories of Smith. According to the critics, he:

- Assumed too much efficiency of markets and did not pay attention to how monopolies or inequalities might corrupt the results.
- Presumed that everybody is rational and can access fair competition.
- Failed to consider negative externalities, including ecological harm or employee exploitation.

A century later, Karl Marx criticized the capitalism proposed by Smith because it alienated the workers, and because it was exploitative in nature. Marx believed that the idea of the invisible hand was utopic as proposed by Smith and did not take into consideration the conditions of work in the industry.

In spite of these criticisms, the legacy of Smith lives on. His thoughts have not only inspired other economists such as David Ricardo and Milton Friedman, but also the way market economies are made today as well as free trade policies and international organizations such as the International Monetary Fund (IMF) and World Trade Organization (WTO).

In the words of economist Joseph Stiglitz: *“If Adam Smith is the father of economics, then The Wealth of Nations is its foundational text.”*

Smith's work is still considered today as the core of the discussions on the topics of economic freedom, the regulation of market relations, and the proportion between the public and the private sector.

### **KARL MARX’S ECONOMIC THOUGHT**

Karl Marx (1818-1883) was a German philosopher, economist, historian and revolutionary whose writings transformed the manner in which we conceptualise society, class and the economy. Adam Smith was concerned with the wealth and efficiency that capitalism was able to bring, whereas Marx was concerned with the conflicts, inequalities and crises that capitalism brought. His most significant writings, *The Communist Manifesto* (1848, co-written with Friedrich Engels) and *Das Kapital* (1867) were not merely criticisms of the capitalist system, but plans of revolutionary transformation. Marx considered capitalism as a historical stage and not an eternal order and it would be superseded by socialism and then communism.

The theory of Marx on economics is based on materialism, history, and social class. Instead of the individual liberty and the invisible hand of market that Smith stressed, Marx viewed the economy as determined by power relations and exploitation. His impacts on the revolutions and labor movements in the 20th century, as well as the economic theory, have been immense and his ideas still stir debate in modern times.

#### ***Overview of The Communist Manifesto and Das Kapital***

Marx and Engels describe in *The Communist Manifesto* the history of human society as the history of class struggle. They explain the way societies transformed themselves to come out of feudalism to capitalism and every stage in history was characterized by oppression of one social class by another- nobles over serfs, and later capitalists (bourgeoisie) over workers (proletariat). The workers are demanded to unite and overturn the capitalistic systems through the manifesto, resulting in a classless as well as stateless society.

The more technical and comprehensive work by Marx, *Das Kapital* (Volume I), is an analysis of the working of capitalism. It examines the matter of commodities, labor, value, and capital and the production of profit (or surplus value). Marx believed that capitalism is based on the exploitation of labour that generates wealth to owners as well as leaving workers poor and alienated. These works together constitute the basics of Marxist economics, an alternative to the classical liberal ideas of Smith and Ricardo.

## **Key Ideas in Marx's Economic Thought**

### **Historical Materialism**

One of Marx's foundational concepts is historical materialism—the idea that material (economic) conditions drive historical change more than ideas or culture. In accordance with Marx, the political, legal, and social institutions of every age are influenced by the predominant economic system of that age.

In this view, capitalism emerged not because of new ideas but because of changes in how goods were produced (e.g., industrialization). Marx thought that capitalism would crumble and give way to socialism owing to its internal contradictions.

### **Surplus Value and Exploitation**

One of the key ideas of *Das Kapital* is a surplus value, which is the gap between the value produced by a worker and wages that he or she receives. According to Marx, workers are paid only a portion of the value they create; the rest (the surplus) is kept by the capitalist as profit.

*“Capital is dead labor, that, vampire-like, only lives by sucking living labor, and lives the more, the more labor it sucks.”— Das Kapital, Volume I*

Marx saw this as the core exploitation of capitalism: workers do not own what they produce, nor do they control how it's produced or distributed. The capitalist gives them just enough to survive and keep working and takes most of the value.

### **Alienation of Labor**

Marx contended that in capitalistic societies workers are alienated from:

- The products they make (they don't own them)
- The process of work (which becomes repetitive and meaningless)
- Other people (competition replaces cooperation)
- Themselves (they cannot express creativity or humanity)

Alienation, in the view of Marx, is a kind of burden that transforms work, which should be a human satisfying activity, into a burden. This dehumanisation results in a psychological and social crisis in capitalist society.

### **Class Struggle**

For Marx, the engine of historical change is the conflict between classes—particularly between those who own the means of production (bourgeoisie) and those who sell their labor (proletariat). These class divisions are accentuated by capitalism according to him.

*“What the bourgeoisie, therefore, produces, above all, are its own gravediggers.” — The Communist Manifesto*

Marx wrote that wealth would become increasingly concentrated, and the situation of workers would deteriorate with the rise of capitalism. The working classes would finally revolt, eliminate the capitalist classes, and seize the means of production. This revolution would result in socialism which is a transition phase then communism which is a classless, stateless and exploitation free society.

### **Criticisms and Legacy**

The ideas of Marx have had a gigantic impact, and they have received enormous criticism:

- Critics point out that his predictions were never entirely realised- capitalism was not destroyed and a lot of the workers improved in most countries.
- Marx underestimated the adaptability of capitalism (e.g., labor laws, welfare, unions).
- Some say his economic models are too focused on class and ignore other forms of inequality (gender, race, culture).
- The communist regimes inspired by his ideas (e.g., Soviet Union, Maoist China) often resulted in authoritarianism, economic inefficiency, and human rights violations—far from Marx’s ideal.

Nevertheless, the criticism of inequality and the emphasis on work as well as the evaluation of power by Marx are highly topical. His work has influenced socialist movements, labour unions and present criticisms of capitalism. His theories are still read and argued by economists, political scientists and sociologists.

In the words of Nobel prize winning economist Paul Samuelson: *“Marx was wrong about many things, but he was right about one thing: capitalism does not always produce outcomes that are just or sustainable.”*

The economic philosophy of Karl Marx presents the effective criticism of the economic system of capitalism, based on the facts of the industrial society. Using theories such as historical

materialism, exploitation, alienation and class struggle, Marx maintained that capitalism was fundamentally unjust and internally unstable. In the next section of this paper, we will compare and contrast these two thinkers- not just to show their points of departure, but also the fertile dialogue between their visions that has continued to inform economic thought in the modern period.

## **THEMATIC COMPARISON: ADAM SMITH AND KARL MARX**

### **Human Nature & Motivation**

The fundamental differences in the conceptions of human nature and human motivation that are at the center of the economic theories of Adam Smith and Karl Marx flow into their respective economic philosophies in broader ways.

Adam Smith was pretty optimistic about the nature of man. In *The Wealth of Nations* (1776), he famously argued that individuals, by pursuing their own self-interest, unintentionally contribute to the greater good of society. He thought that self-interest was not merely natural, but also effective, since it motivated trade, innovation and cooperation. This belief underpins his concept of the "invisible hand," where market outcomes emerge spontaneously from countless individual choices without central direction. Smith did not propose selfishness; he perceived self-interest as a component of morality. In *The Theory of Moral Sentiments* (1759), he emphasized that people are also motivated by sympathy, conscience, and a desire for approval. According to Smith therefore, self-interest and morality could go hand in hand.

Instead, Karl Marx viewed human nature as historically determined. Karl Marx regarded human nature as historically conditioned, that is, composed by material circumstances rather than inborn instincts. Marx was of the view that humanity will be misplaced in its drive in the capitalist state. Human beings have no choice but to work not to actualize creative potential, but to survive. In his earlier works, especially the *Economic and Philosophic Manuscripts of 1844*, Marx maintained that capitalism causes alienation a situation where the worker is estranged or alienated from the product of his or her labor, the act of labor itself, his or her fellow workers and even his or her own nature as a creative being. In contrast to Smith who found division of labor to be empowering and efficient, Marx found it to be dehumanizing in capitalistic circumstances. He was of the view that individuals are inherently cooperative and social, but that capitalism subjugates these tendencies in support of competition and market gains.

This basic distinction in the manner in which the two thinkers perceived human nature directly feeds into their respective systems at large. This economic model of Smith is based on the self-drive of the individuals and presumes that harmony could be established through the actions of the individuals. According to the model proposed by Marx, society should be completely

reorganized in order to adjust the economic life to the model of the genuine, non-alienated human nature that is creative, socio-centric, and free of exploitation.

In conclusion, Smith thought that people would be the best in the marketplace with freedom whereas Marx thought that people would only attain freedom by changing the system that bound them.

### **Labor and Value**

Adam Smith and Karl Marx both made labor central to their theories on the economy but interpreted that role and that relation to value quite differently. Their differing philosophy regarding labor shows their overall economic philosophy and moral standing on capitalism.

Adam Smith proposed an early version of the labor theory of value in *The Wealth of Nations* (1776), where he argued that in primitive societies, the value of a good is determined by the labor required to produce it. As economies however became more complex and developed, Smith realized that value was determined by supply and demand, capital investment and land. Smith viewed division of labor, which involves chopping work into small, specialized jobs, as a major way of enhancing productivity and efficiency. His well-known example of a pin factory showed how specialization could increase production several times. Smith thought that organized labor was beneficial to society and the producers. To him, work was not only prolific in terms of goods, but in overall prosperity as well.

Karl Marx also used the labor theory of value but arrived at very different conclusions. In *Das Kapital* (1867), he argued that value is created entirely by labor—but that under capitalism, workers are not paid the full value of what they produce. Rather, capitalists appropriated surplus value, in which they pay workers less than the value that their work produces and retain the difference as profit. To Marx, this was exploitative in nature and the source of all inequality in capitalist entities. The commodification of labor is another major Marx concept. With capitalism, even labor is commoditized and sold in the market. This, Marx said, is one thing that alienates the worker to the product and to the intention of work.

**Table 1: Comparison between Adam Smith and Karl Marx in relation to labor and value**

<b>Concept</b>	<b>Adam Smith</b>	<b>Karl Marx</b>
<b>Labor Creates Value?</b>	Yes, but value evolves with market forces	Yes, exclusively
<b>Labor's Role</b>	Productive and socially beneficial	Exploited and alienated

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<b>Division of Labor</b>	Increases efficiency and wealth	Increases monotony and alienation
<b>Surplus Value</b>	Not emphasized	Central to exploitation

To recap it all, Smith saw labor as a productive power, whose effective organization serves the good of everyone, whereas Marx saw the main arena of capitalistic exploitation in labor, which does not require efficiency, but revolution.

### **Role of the State**

One of the main distinctions between Adam Smith and Karl Marx is the role of the state. Although both philosophers conceded that the state influences the life of the economy, they seriously differed on the extent to which it should be active or inactive, whom it should benefit as well as its interaction with economic classes.

Adam Smith wanted a minimalist intervention of the state in the economy. In *The Wealth of Nations* (1776), he argued that government intervention should be minimal, allowing the “invisible hand” of the market to allocate resources efficiently. Smith had the opinion that people acting to fulfill their self-interest in a free market would, accidentally, promote the interest of the whole society.

Smith was not however a radical libertarian. He did see legitimate roles of the state, which he summarized into 3 important tasks:

- Protection from foreign invasion (military)
- Administration of justice (law and order)
- Public works and institutions that private enterprise would not find profitable but are essential (such as roads, education, and bridges)

Ideally, Smith saw the state as a night-watchman, providing peace, justice and basic infrastructure, but getting out of the way of markets wherever it could.

By contrast, Karl Marx viewed the state as a means of class domination. In *The Communist Manifesto* (1848), co-authored with Friedrich Engels, Marx wrote that the state under capitalism functions primarily to protect the interests of the bourgeoisie—the capitalist class. Legal and political structures of the state are not neutral in the worldview of Marx, but rather legitimize and strengthen economic inequality. Marx theorized a transitional dictatorship of the proletariat phase in which the state would play a temporary, but strong role immediately after a revolution

by the workers. Further on, he speculated about the dissolution of the state, after the elimination of classes and the introduction of communism.

**Table 2: Comparison between Adam Smith and Karl Marx in relation to role of state**

<b>Role of the State</b>	<b>Adam Smith</b>	<b>Karl Marx</b>
<b>Main Function</b>	Ensure justice, defense, and infrastructure	Maintain class dominance → dissolve after revolution
<b>Market Involvement</b>	Minimal; only when markets fail	Directly intervene and eventually replace markets
<b>View of State</b>	Neutral arbiter	Tool of class oppression

### **Vision of Progress**

Smith viewed progress as the slow development of societies into better economic efficiency brought about by the division of labor and self-interest. In *The Wealth of Nations* (1776), he proposed that as individuals pursued their own economic gain in a free market, they unintentionally contributed to the general welfare:

*"By pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it."*

According to Smith's model, there is an inherent alignment of personal interest and social good as long as competition and justice are maintained. National prosperity would rise steadily as a result of technological innovation, greater specialization, and the accumulation of capital. The state, in this vision, has a secondary role- safeguarding rights, arbitrating contracts, and investing in public works.

Smith's idea of progress is incremental, peaceful, and market driven. Economic evolution and moral standing act and work together to gradually make society better, without revolution.

Instead, Marx viewed history as revolution and a succession of class conflicts and thought that history moves forward by revolution, rather than by steady reform. In *The Communist Manifesto* (1848), he argued that capitalism, though historically necessary, had created unbearable conditions for the working class.

Marx was optimistic that capitalism had laid the seeds to its own demise through the concentration of wealth and the alienation of workers with regards to their work. His clause was overthrowing the bourgeoisie, a dictatorship of the proletariat, then classless, stateless society: communism. It was a teleological interpretation of history, history was seen as moving purposefully toward a specific, inevitable end goal. Marx was sure that communism was the final purpose of a historical process, the society free of exploitation and classes.

### **Critique of Capitalism**

Adam Smith and Karl Marx are usually regarded as the polar opposites in terms of their ideology; nevertheless, both philosophers found some grave problems in the capitalistic system. But their criticisms arise out of some very basic differences in assumptions regarding human behavior, economics and the way society is structured. Where Smith spoke cautiously and with a focus on reform Marx spoke revolutionarily of the evil of capitalism as exploitative.

Adam Smith advocated the concept of capitalist economy which was based on the principles of private property, free markets and freedom of the individual. He had the view that as individuals pursue their own interest in a competitive market, they do so unwillingly benefit the general welfare of society. Smith however did not overlook the negatives of capitalism. He understood that without regulation markets were subject to exploitation. The companies may collude to limit competition, distort prices, or oppress consumers and employees. Smith was worried about the development of monopoly and over-concentration of wealth and power, as it could corrupt the markets and eliminate fairness. He also thought that a purely profit-oriented system may forget about significant social tasks, like education, public infrastructure, and justice. He thus felt that the state needed to interfere, not to regulate the market, but to ensure that it operated reasonably. To Smith, capitalism was not an ideal system, yet it could be shaped by morals, legislation, and wise government to become a means to the ends of personal liberty and social wealth.

Karl Marx was a contemporary writer after the Industrial Revolution and viewed capitalism much differently. Competition and market incentives were viewed by Smith as a force of good, but Marx viewed that capitalism methodically impoverished the overwhelming majority of the population- the working class in order to enrich a small group of people who were the capitalists. His criticism was premised on the notion that the capitalist system thrives on exploitation. According to the analysis of Marx, through the work of workers, they generate economic value,

but get only a part of this value in the form of wages; the remaining part, or surplus, is obtained by capitalists as profits. Such a distribution, according to Marx, is not just or unjust- it is the way capitalism works. He also cautioned that capitalism results in alienation in which workers lose touch with the products they produce, the labor they perform and even with their own human capacity. Further, Marx thought capitalism to be highly crisis-tendered and unstable, with companies competing over profits in a manner that leads to overproduction, unemployment, and increasing inequality.

So, where Smith had regarded capitalism as capable of being fixed through moral and institutional reforms, Marx regarded it as irrevocable. To him capitalism was merely a transitional phase in the historic evolution of human society. He felt that one day the laboring population will rebel and replace the capitalist society with a community that enjoys shared ownership of resources. According to Marx, capitalism was a necessary though violent stage - which would eventually give way to socialism and, ultimately, communism.

In a nutshell, Adam Smith was critical of capitalism in that it had the potential to be unjust, lacking moral restraint and regulation. He wanted to fix and amend capitalism so as to salvage the good. Marx however saw capitalism as highly problematic, and it could never be justice to serve as a system that was founded on exploitation and inequality. These differing criticisms correspond to deeper differences in how the two thinkers understood human nature, economic relations and the social future. Their thoughts still influence contemporary arguments concerning wealth, power, and justice in the current economies.

## **IMPACT ON MODERN ECONOMICS**

### **Adam Smith's Influence on Modern Economics**

Smith's contributions are not only theoretical but have had significant practical implications in the development of economic policy, trade systems, and government regulation across the world.

His principles of Laissez-Faire and Invisible Hand made its mark on liberal economic thought that focuses on free-market economics and small government and on the role of private enterprise. Developments in the 19th century Smith was developed by the classical economists, such as David Ricardo and John Stuart Mill, whose ideas were in turn modified by the neoclassical economists of the late 19th and early 20th centuries.

The emphasis of Smith on division of labor also which is the specialization of the workers in particular activities in order to enhance productivity also became fundamental. This idea foreshadowed the emergence of industrial capitalism and the factory system. Through the explanation on why specialization can bring higher efficiency and economic development, Smith

offered a logical explanation of emerging market economies, especially the period of Industrial Revolution. The division of labor is a common premise of economic modeling today and a main characteristic of global supply chain organization.

The other important impact of the work of Smith was that he also spoke about competition as a means of controlling economic activity. According to him, rivalry among companies prevents excessive prices, excellence of products and innovation. Such observations strongly impacted antitrust policy and market regulation in capitalist nations, especially when modern corporations began to grow in size and prominence at the end of the 19th century and the beginning of the 20th. Some governments that had firmly intervened in the markets started taking a different direction towards policies which inclined towards the Smithian ideals at least in the Reagan and Thatcher years of the 1980s that saw the introduction of deregulation of markets, privatization and tax cuts as methods of economic growth.

Smith also was subtle in his perception of the role of the state. Although he emphasized the limited intervention in the marketplace, he did not support it to be completely inactive. He recognized the state's role in maintaining justice, building infrastructure, and providing education. This is a secondary feature of his thinking although it is not a minor one these days. His belief in the importance of public goods, to give a current example, fits with modern discussions of the benefits of investment in human capital and infrastructure in stimulating long-run economic growth.

The legacy of Smith in modern economics can be seen in the way in which neoclassical economics has become the main principle of economics teaching and practice. His thought forms the foundation of such concepts as the maximization of utility, supply and demand, and fair pricing. Moreover, Smith's work has influenced institutions such as the World Bank, the International Monetary Fund (IMF), and the World Trade Organization (WTO)—all of which promote free trade and market liberalization, key tenets of Smithian economics.

**Table 3: Empirical Evidence Supporting Adam Smith's Lasting Economic Influence**

Area of Impact	Key Concept (Smith)	Evidence & Data	Source
<b>Global Trade Growth</b>	Free Trade & Comparative Advantage	Global trade as % of world GDP rose from ~24% (1960) to ~59% (2010), stabilizing ~52% (2020)	World Bank, WDI Database
<b>Industrial Growth</b>	Division of Labor	Specialized manufacturing sectors show higher productivity	UNIDO Industrial Statistics Database (2020); OECD Productivity Reports

<b>Economic Growth</b>	Liberalization & Market Efficiency	Countries adopting liberalization (U.S., U.K., China post-1978) show high GDP growth	Dollar & Kraay (2004), <i>World Bank</i> ; Rodrik (2007)
<b>Poverty Reduction</b>	Market-Driven Growth	Global extreme poverty dropped from 42% (1981) to ~10% (2020)	World Bank, PovcalNet (2021); UNDP Reports
<b>Policy Frameworks</b>	Anti-Mercantilism → Global Trade Institutions	GATT (1947), WTO (1995) founded on free trade principles	Irwin (1996), <i>Against the Tide</i> ; WTO History

While his theories have been critiqued—especially for underestimating the potential for inequality and exploitation—Smith's contributions remain central. Contemporary economists tend to re-interpret the work by Smith to reference the 21st century challenges of globalization, automation, and income inequality. His ideas of a competitive and self-regulating market have served as the guide to economic reform and economic policy discussion in every corner of the globe, including tax policy and international trade agreements, in labor laws and in the digital economy.

The presence of Adam Smith in the economic world today is profound and lasting. He not only contributed to the development of the vernacular and the economical discourse, but he also gave the moral and practical framework in regard to the way money is created and shared. Not only did his ideas pave the way to capitalism, but they also inspired the continual debates concerning the necessity of freedom, as opposed to fairness in the economic systems.

### **Karl Marx's Influence on Modern Economics**

Despite widespread rejection of Marx's prescriptions for revolutionary communism, many of his analytical frameworks remain deeply embedded in modern economic discourse. His best contribution, possibly, was a critique of the natural tendency of capitalism to inequality, a profound lack of stability and a propensity to exploitation, which remains topics in contemporary policy making.

The jewel of Marxian criticism was his theory of surplus value, and in it, Marx argued that the capitalists, who had possession of the means of production, enriched themselves at the expense of the worker, compensating them below the rate that their labor paid. This is the most important understanding that has influenced the discipline of study on income distribution economics, particularly the fact that inequality in capitalist societies has increased. More recently, e.g., in the

last decades, economists such as Thomas Piketty have shown empirically how this appears to be the case, as formulated by Marx. Piketty's comprehensive data on wealth concentration shows that the share of national income controlled by the top 1% in the United States doubled from approximately 10% in 1980 to over 20% by 2020 (Piketty & Saez, 2020). In addition to this, this has also been the case with regards to wealth concentration across the world including in Europe and emerging economies pointing to the fact that accumulation of capital tends towards concentration, and this is what Marx predicted.

The other piece of work by Marx that persists is the analysis of alienation of labour. Employees in highly specialized and impersonal world production chains are also usually detached to the end product, their colleagues, and even the creative powers of their own work. Whereas Adam Smith exalted specialization because of the productivity it brings about, Marx cautioned about the risk of excessive division of labor to the point where workers ended up as cogs of a machine system in unfulfilling jobs. These apprehensions are echoed in modern research on the question of job satisfaction, mental health in the workforce, and employee engagement. According to the Gallup Global Workplace Report (2022), only 21% of employees worldwide report feeling actively engaged at work, with the majority describing their jobs as routine, monotonous, or stressful. This mass employee alienation portrays how worker alienation as explicated by Marx is still intensely applicable in contemporary economies and notably the large-scale multinational supply chain.

The dogmas about the inherent instability and cyclical crises of capitalism put forward by Marx spoke volumes in the financial economics of today as well. His work on the overproduction and overaccumulation of the system and the disposition of capital towards more and more speculative and risky investments anticipated other financial crises today. The world financial crisis of 2008 revived the study of Marxism, since this was a demonstration of the destructive instability that was possible in deregulated financial markets and over-involvement in risk-taking. Scholars like David Harvey (2010) argue that speculative financial bubbles, debt-driven growth, and rising inequality reflect Marx's original analysis of capitalism's unsustainable contradictions. Similarly, Joseph Stiglitz (2010) emphasizes that unregulated markets tend to amplify systemic risks — a critique firmly rooted in Marxian thought.

Even though in mainstream academic and policy institutions neoclassical economics prevails, the intellectual legacy of Marx, although criticized, lives on through heterodox schools of thought. Marxian economics, post-Keynesian economics, Dependency Theory and World-Systems Theory, in particular, are often based on Marxist historical materialism and on his analysis of classes and why capitalist accumulation fails to work. These schools remain critical of the postulates of perfect markets, rational actors and of self-healing economic mechanisms that define neoclassical models. Marxian approaches pioneered by such scholars as Immanuel

Wallerstein and Samir Amin have been used to discuss global inequality, colonial exploitation, and unequal exchange between the developed and the developing world, some of which continue to be urgent problems in the 21st century.

Lastly, the idea of class struggle is one of the concepts offered by Marx that is strongly enshrined in the politics and the social movement. A rising inequality has sparked political movements, both in advanced economies and developing nations, arguing the causes of wealth redistribution, universal healthcare, tougher labor regulations, and progressive taxation, which are the major concerns in democratic socialism and anti-austerity movements. The emergence of political leaders like Bernie Sanders in the United States or anti-austerity movements in Europe shows that Marx was correct in the flux of concentrated economic power and the political war of classes. Discussions on labor rights, minimum wage, universal basic income, and wealth progression of taxes can be seen in market economies that have decided to reject or refuse state socialism, and usually to tax all in the community.

### **CONTEMPORARY REFERENCE**

Adam Smith and Karl Marx remained a living source of understanding of how contemporary economies work and a hundred or two centuries after their death, remain one of the most important sources of contemporary economics. Their doctrine is still at the cry of forces of contemporary arguments on the value of markets, the sustainability of inequality, as well as the duty of the state.

#### **Markets: Efficiency, Instability, and the Invisible Hand**

This is what made Adam Smith an enduring presence and his ideas of self-organization of markets influence most economists today. His notion of the invisible hand suggests that individuals, by pursuing their self-interest, inadvertently contribute to the collective good (Smith, 1776). This concept has become a pillar in intellectual development of contemporary neoclassical economics and free-market capitalism whereby markets are held to be the most effective distributors of resources.

The opening of the world markets towards the end of the XX century, especially with the collapse of the Soviet Union, may be viewed as the rebirth of the ideas by Smith. Policies favoring deregulation, trade liberalization, privatization, and tax cuts—especially during the Reagan and Thatcher eras—reflect Smithian economic principles (Harvey, 2005). Institutions such as the World Trade Organization (WTO), International Monetary Fund (IMF), and World Bank have often promoted these policies globally, highlighting confidence in the self-correcting capacity of free markets.

Nonetheless, it is very relevant that Marx has criticized capitalism with underlying contradictions. The worldwide financial crisis of 2007-2008 showed how risky free financial markets can be. Marx had predicted that speculative capital, overproduction, and crises of profitability could destabilize the capitalist system (Marx, 1867). The excessive leveraging of financial institutions, proliferation of complex derivatives, and speculative housing markets leading up to the crisis echoed Marx's insights about capitalist overaccumulation and systemic vulnerability (Foster & Magdoff, 2009). Post-crisis reforms like the Dodd-Frank Act (2010) in the United States demonstrate an implicit acknowledgment that unregulated markets can generate serious instability; a position far closer to Marx than to Smith.

### **Inequality: Persistent and Growing Divides**

Smith and Marx recognized the existence of inequality, but Smith and Marx had very different solutions and diagnosis. Smith recognized that wealth disparities could endanger social harmony and advocated public investments in education and infrastructure to counterbalance such risks (Smith, 1776, Book V). This worry originated intuitively from the intellectual heritage of the modern welfare states with mixes not only of capitalist markets, but also of redistributive policies such as progressive taxation, social security, and general education.

Conversely, Marx viewed inequality as a defect that could not be fixed but a natural result of capitalist accumulations. His theory of surplus value argued that capitalists accumulate wealth by appropriating unpaid labor from workers, leading to increasing class polarization (Marx, 1867). In the present-day empirical research, this dynamic is well evidenced. Thomas Piketty's *Capital in the Twenty-First Century* (2014) demonstrated that the rate of return on capital ( $r$ ) has consistently exceeded economic growth rates ( $g$ ), leading to growing wealth concentration—a dynamic strongly reminiscent of Marx's analysis.

According to the Federal Reserve's 2022 Distributional Financial Accounts, the top 1% of Americans now hold more than 30% of total wealth, while the bottom 50% own less than 2%. In many advanced economies, wealth inequality has returned to levels not seen since the early industrial revolution (Saez & Zucman, 2016). Increased inequality has brought back the arguments on wealth taxes, universal basic income, and labour protections, that were major concerns of Marx in his condemnations of the unequal results of capitalism.

### **The Role of the State: Minimalism vs. Activism**

Smith envisioned a minimal state, tasked primarily with protecting property rights, maintaining national defense, enforcing contracts, and providing limited public goods (Smith, 1776, Book V). This neoclassical liberal outlook has been particularly influential in policy frameworks that focus on deregulation, privatization, and free trade in the course of the 20th and the 21st centuries.

Global movements such as neoliberalism have their intellectual roots in Smithian economic liberalism, emphasizing reduced state intervention and an expanded role for private markets (Mirowski & Plehwe, 2009).

Marx was much more radical in his way of thinking, perceiving the state as the tool of class domination being in the benefit of the bourgeoisie. For Marx, only revolutionary transformation could dismantle the structures of capitalist power and inaugurate a classless society governed by the dictatorship of the proletariat (Marx & Engels, 1848). Most of the classical Marxist revolutions passed, but his argument that the state was allowed to languish under elite interests still stands.

Marxian concerns about unequal political power, corporate lobbying, and regulatory capture are reflected by modern day concerns. For example, Gilens and Page (2014) find that economic elites exert significant influence over U.S. policy outcomes, often in opposition to the preferences of average citizens—a contemporary echo of Marx’s state-as-bourgeois-instrument thesis. The emergence of state capitalism in other nations such as China is a mixed model in which the state plays an overwhelming role in managing economic growth and political control although the model is difficult to compare with the approaches of the Smithian laissez-faire and Marxist rule of the proletariat.

**Table 4: Smith vs. Marx: Influence Timeline**

Year	Major Event	Smith’s Influence	Marx’s Influence
1776	<i>Wealth of Nations</i> Published	Birth of classical capitalism	—
1848	<i>Communist Manifesto</i> Published	—	Birth of revolutionary socialism
1917	Russian Revolution	—	Marxism inspires Bolshevik revolution
1945–1970	Post-WWII Welfare States	Mixed economies with Smithian markets + state welfare (Keynesian synthesis)	Influence on socialist states (Eastern Bloc, China)

<b>1980s</b>	Reagan & Thatcher era	Neoliberalism: deregulation, privatization, free markets (Smith revived)	Marxist critique resurges in academia against rising inequality
<b>1991</b>	Fall of USSR	Smithian capitalism expands globally	Collapse of Marxist states challenges communism
<b>2008</b>	Global Financial Crisis	Limits of deregulated markets exposed	Marxist analysis of capitalism's internal crises gains renewed attention
<b>2010s–2020s</b>	Rising inequality debates	Smithian markets questioned; return to regulation	Piketty's <i>Capital in the 21st Century</i> revives Marxist concerns
<b>2020–Present</b>	COVID-19 Pandemic & State Intervention	Governments actively manage economies, mix of market and state responses	Renewed debates on inequality, labor rights, and state roles

## CONCLUSION

This paper explored respective economic doctrines of Adam Smith and Karl Marx, discussed the historical backgrounds they occurred, their major concepts, their area of contrasts as well as the critical influences they have had on the contemporary economy. Their intellectual legacies remain at the margins of what defines the range of economic analysis, providing two quite different but closely related views of capitalism and the market, of labor and of the state.

Writing at the end of the Enlightenment and at the dawn of early capitalism, Adam Smith extolled the benefits of market competition, division of labor and the self-interest of individuals, driven along the lines of the invisible hand. In his *Wealth of Nations*, he provided the intellectual foundations of modern liberal economies and the key principles of limited state interference, specialisation, and efficiency of a decentralised market. Smith has a faith in human rationality and spontaneous order, and this is the contribution he had on neoclassical economics and one that has dominated economic policy to date.

Describing the more advanced phase of industrial capitalism in the 19th century, Karl Marx offered a radically different perspective. Historical materialism developed by Marx and theory of

surplus value gave a light into exploitative systems that existed in capitalism. His observations of alienation, class conflict, and capitalist amassment roots out the conditions of inequalities that are deeply present up until today. Although his vision of a classless society did not materialize very much in the grand Marxist revolutions of the 20<sup>th</sup> century, the analysis of power/ wealth distribution, crisis under capitalism that Marx came up with, still remains a part of the critical economic thinking related to power and wealth dispersion under the umbrella of capitalism.

The most evident conclusion of the paper under consideration is that each of the thinkers is not capable of describing modern economic realities fully on his own. The optimism that Smith has on markets has led to economic growth, innovation, and globalization but his framework has tended to underestimate the potential of markets to produce inequality, monopolies, and financial instability. The critique contained by Marx aptly foretold lots of contradictions of capitalist growth and development, such as the emergence of wealth concentration, financial or financial crises, and rising labor dispossession, but its revolutionary prescriptions have seldom fulfilled the signs of fair societies the author saw.

The 2008 global financial crisis, the resurgence of wealth inequality (as documented by Piketty and others), and the ongoing debates about automation, labor rights, and environmental limits reveal the continuing relevance of Marx's concerns. At the same time, the stability of capitalist democracies, the contribution that innovation in the market makes to the improvement of living standards, and the spread of trade around the world all testify to the lasting ideas of Smith.

In modern times, economists, policymakers, and citizens have to face the problem that needs to be addressed via a union of both perspectives. Addressing climate change, for example, demands both market-based solutions like carbon pricing (Smithian mechanisms) and strong regulatory interventions to correct for market failures (closer to Marxist concerns about systemic imbalances). Likewise, inequality could be fought by pursuing market-based development alongside pro-active employment of state policies to redistribute, control and guarantee social protections.

The continued pertinence of both Smith and Marx is not whether one is preferred to the other but rather in understanding that their debate still represents the fundamental tensions of economic existence. Both the admiration of the dynamism of the markets found in Smith, and the vigilance against uncontrolled amassing and exploitation found in Marx are needed in today to comprehend economics. As Joseph Stiglitz (2012) notes, *"markets, by themselves, often lead to outcomes that are neither efficient nor fair. But abandoning markets altogether ignores their creative potential."*

The most convincing concluding point therefore is not that Smith or Marx is right but that the problem of contemporary economic analysis is always to be between the insights. Their intellectual rivalry remains the engine driving our understanding of capitalism's promises and perils and will likely continue to do so for generations to come.

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