Difference between Marxian Economics and Keynesian Economics in the Explanation of Capitalist Economy (with reference to the Australian Economy)

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**Introduction**

Economics is a very important factor that determines and controls various monitorial factors in a society. Economics is the branch of social sciences that is linked with the study of production, distribution and consumption of goods and services in a specific market. It is a very vast field and considers a number of factors while incorporating various levels of study. The subject focuses on the behaviour and the interaction of various bodies to allocate and control the distribution of resources in various ratios. These bodies include the government, businesses and society’s households and individuals (Mankiw, 2014). The subject of economics also caters to the impacts of the varying levels of distribution and allocation of these resources on these bodies on a general and a specific level. The subject also takes into consideration various facets of demand and supply and the patterns of earning income and spending in various geographical regions.

As it has already been established that economics is a very vast field, thus it contains various schools of thought, which are used to explain various concepts in economics in their own unique way. These concepts include the concepts of demand and supply, resource allocation and many other aspects of the economic life of a government, country, state or an individual (Sahlins, 2017). The most popular school of thoughts include Marxism, capitalism, the classical approach, neo-classical approach, and Keynesian economics. The following piece of writing will compare and contrast the two most important schools of thoughts in economics: Keynesian economics and Marxist economics. In addition to discussing the differences between both these approaches, this piece of writing will also discuss both of them under the light of a capitalist economy, with reference to the Australian economy.

**Discussion**

TheKeynesian and Marxist schools of thought, both hold a great place in the study of the economics of any country. Both these school of thought discuss a different type of financial system in a geographical region. Both have played a very strong role in the development and of nations. National leaders, according to their own concepts, have adopted these economical systems to boost or bring balance to their resources, income and demand and supply cycles.

**Keynesian School of Thought in Economics**

Developed in the 1930s in an attempt to understand The Great Depression, the Keynesian School of Thought deals with total spending and the effect it has on output as well as the idea of inflation (Crouch, 2009). Back in the day, its author, John Maynard Keynes advocated that the government increase its expenditures and at the same time lower its taxes to increase demand in the market. In his opinion, it was the only way the great depression could be lifted and the global economy stabilized.

Following the elevation of the Great Depression, Keynesian economics was used to refer to the concept of an economy that performed at optimal levels, while preventing economic slumps (Hall, 1989). It is considered as a demand-side theory that focuses on the changes that occur in the economy over a short period of time and influences the idea of stabilization and economic intervention through aggregate demand.

**Marxist school of thought in Economics**

Marxist School of Thought in Economics was proposed by famous economist Karl Marx in 1848. Karl Marx was also a philosopher, social Theorist and author who contributed a lot towards the field of economy, especially regarding the theories of capitalism and communism (Barone, 2016). Karl Marx was very much against the social classes and he often wrote about the classification system in various societies. According to him, the classification system was an unjust practice and was used to exploit the rights of the poor. He was of the view that there should be a classless society which should be totally free of classes and there should be equal distribution of resources. Marx was of the view that the class system has been devised by the rich or elite class to exploit the poor.

Karl Marx had these rigid thoughts because he was born in such an age when capitalism was at its peak. He was born in the middle of the industrial revolution when the production was at its peak and the era of industrial growth was everywhere. Max observed the struggles and hardships of the working class and the exploitation that was being carried on at them by the industrial class or elite class. Observing all this, he presented his unique idea about an economic system. According to him, the economic system would prove to be beneficial for the poor working class of the country as compared to the elite class. Karl Marx greatly supported the poor and was always in favour of their rights. His work, along with Friedrich Engels, was published in The Communist Manifesto in 1848 and Das Kapital in 1867.

**Capital Market**

A Capital Market is a term that is used in the spheres of economics and trade very commonly. Capital Market refers to a place or market where buyers and sellers engage in the trade of financial securities likes bonds, stocks etc. It is a financial market where long-term debt (over a year) or equity-backed securities are bought or sold. The process of buying and selling of these long term commodities is carried on by various individuals and institutions. In short, a Capital Market puts the wealth of the savers in safe hands where it can be put to some productive use. The wealth or resources are channelled to different institutes like private companies or to the government so that they can be invested in some long-term plan.

The concept of capital marketing has changed considerably over a period of time. Nowadays, most of the trade business is carried on computer-based machines and platforms. Most of these platforms can only be accessed by individuals with some sort of link with the financial sector or the government treasury authorities. Only some of these platforms are accessed by the public. Capital markets are further divided into two types of markets: primary market and secondary market. Bank loans are also sometimes considered as an issue in the capital market.

**Australian Economy**

Australia is a very stable country in terms of economics. It enjoys a mixed market economy or western market economy, where the GDP is high and the rate of poverty is nil or almost very low. Australia is a country with a very high and stable per capita income and poverty rates are very low (Groenewegen, & McFarlane, 2014). The country ranks among the first five developed countries in the world, in terms of economy and trade. The four main components that make the Australian economy very strong are trade, manufacturing, services and financing.

The Australian economy is majorly dominated by the services sector, where the major part of the GDP comes through providing services. Although the agricultural and mining sector also accounts for a large number of exports (57%) in the GDP of the country, the prominent contributions are done by the services sector. Some of the other factors that contribute to the stable economy of the country are large scale productions, private enterprises, industrialization, high technology and natural resources.

The Australian economy was not always like this. It has seen many highs and lows in the past but now it is stable and, in fact, very strong. One of the strongest pillars of the Australian economy is Australian stock exchange, more commonly known as ASX. ASX deals with almost all the trading practices of the country and is one of the major sources of income for the whole country.

**Neo-Classical Economics**

Neoclassical economics is an economic theory that primarily deals with the supply and demand model. It aims towards enhancing an individual’s rationality as well as his or her ability to maximize profit (Ferguson, 2008). It employs the use of mathematical equations to economics and its various aspects. While the term neoclassical economics was first coined back in 1900, the term didn’t gain popularity until the early 20th century.

The primary concern of neoclassical economists is to maximize the consumer's personal satisfaction. Thus, all decisions made and evaluations performed in neoclassical economics is in compliance with this belief. Since this theory also happens to coincide with the rational behaviour theory, it states that people tend to behave in a mindful and rational manner, especially when they are carrying out economic decisions. Neoclassical economists believe that a product's value is determined on the basis of a consumer's perception of the cost. This value usually goes above and beyond the input costs of the project. In comparison, classical economists believe that the value of a product is derived from the costs of the raw material of the products, along with the cost of labour it took to make that particular object. This economic theory considers competition as a means of obtaining an efficient allocation of resources within an economy.

In comparison to the Keynesian school of economics, neoclassical economics believes in maintaining a sense of equilibrium between both the supply and the demand of an entity. It tries to work towards full employment of market available resources rather than underemployment of the said resources.

**Analysis**

Considering both of themodels of economics, Marxist school of thought and Keynesian school of thought about economics, it can be seen that there is a big difference in the concept of both scholars. Karl Marx was a sociologist and philosopher, which is why his thoughts were more inclined towards social welfare and social work. His work was intended to provide relief to the poor wan working class of the society. Marxist school of thought is completely opposite to that of the concept of a capital market, in which resources are controlled and investment is done through specific channels only. The Australian economy can be observed in the light of Marxist school of thought and it can be said that the Australian economy is very much in coordination with the concept of Karl Marx.

As compared to Karl Marx, Keynes was an expert economist and a mathematician. He was of the view that prices tend to be relatively inelastic in a shorter run. He explained that if the demand for the goods fluctuates, the sale of the goods will also move towards high or low, but the price of these goods will take much longer to adjust. Keynes presented the point that such a fluctuation in the demand and supply of the goods will result in the shape of recession. Keynesian views can be applied in the case of a capital market to a great extent as all the resources are controlled by the government (Wright, & Lansbury, 2014). This approach is, however, not much effective in the case of free market economies like Australia, where no specific system of economy is prevailing. This approach is also not applicable to a country whose economy is lying on the basis of the services sector.

**Conclusion**

In short, it can be concluded that Karl Marx, and John Maynard Keynes, although worked in the same area of economics, had totally contrasting views about the economic setup of a market. Karl Marx views pose to be somewhat of rigid and inflexible thoughts about the exploitation of the poor, whereas Keynes thoughts seem to pretty flexible and realistic.

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