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[Subject]

[Date]

**Answer 1**

Classical political economy is divided into market self-regulation and creation of value and distribution. People like Adam Smith who was considered as the father of economics helped the separation of various concepts which were initially studied together. One of the best explanations of politics was presented by Adam Smith in the name of invisible hand. This concept helped to identify a new relationship between politics and the civil society or more specifically politics and economics. This concept was in line with the thoughts put forward by Steuart. A society went through a change which was brought about automatically from inside of it. A state or government had a minimal role to play in this regard. State had a role to play when these changes had to be implemented, their importance had to be identified by the state and it also led the society through these changes. Smith was of the view that, there should be a separation of political and non-political decision making in the society. A political unit may work to satisfy the private wants but production and distribution of these goods should be considered non-political. There was also a clear difference between the political and economic laws, and role of government in developing both types of laws was different. Political laws were developed and implemented by the government whereas in the economic laws, a caretaker role of government was desired. A free market allowed people to act as sellers and buyers at the same time. A person selling a product to seek some money took that money to the market to purchase some commodities from the market. People who had produced their own products took them to the market for sale to receive money and purchase other commodities needed by them. There was a clear circulation of resources around the market as a result of people acting as sellers and buyers at different points in time. By working for himself, each person basically provided money and goods to other people. A person who wanted to sell a low demanded product will not be able to get enough cash to purchase commodities for himself as well. The skills of labor were also considered a commodity by this system. A person or a group of persons was not able to find employment simply because their skill set is not in demand in the market. The hardships created by the inability of selling a product do not affect the market negatively. These hardships created the incentives for various individuals to match their skill sets with needs of other people and other means of production (Heilbroner and Thurow). This issue was related to the problems faced by the individual seller only and a group of sellers will not suffer from this lack of demand for their product. The time of hardships will be very short according to the classical economists and it will last only until people are not able to match their skills to what is required by the market. People produce or sell with an intention to buy other commodities for their own usage. This will prevent a market failure despite an individual failure (L.Heilbroner).

**Answer 2**

The first issue raised by Karl Marx regarding the free market system was that there will be no profit for people because everything will be selling for its exact value. There would be no increment in price of a given product and a buyer will be left with a lower amount of money at hand when he has purchased some commodity from other sellers. The person who worked as a laborer in any setting will value his skills according to his subsistence wage. The main argument of Marx was that the worker will be working for a ten or eleven hour shift but will be compensated with lower amount of wage. The difference between the value created by a laborer and value received in return would bring profit into play for a capitalist (Caporaso and P.Levine). Adam Smith ignored the fact that a capitalist created a monopoly regarding access to the factors of production required to produce the goods. A worker cannot ask more than the worth associated with him as a commodity. This also went against the point forwarded by Adam Smith that a group of sellers may not fail to sell their commodities for a long period of time. We could easily see that a group of laborers will not get any work if it is not willing to work at the current level of wage. Marx argues that the capitalist has a much longer view of the proceedings to maximize his profits. Marx had an opinion that there was uncertainty in the whole system and at almost all the stages of an economic system.

Keynes criticized the argument that a free market economy will self-regulate itself. The first argument refers to a problem in system which does not allow some sellers to find appropriate buyers. A market mechanism will not allow some people to have sufficient purchasing power with the buyers. The wants and means will not be matched properly. This will create an under-utilization of current resources of society. The failure of aggregate demand should not be treated as a political issue. The addition of a number of automatic mechanisms which helped to rectify the situation. There was a certain level of uncertainty in the ability of capitalist system to reproduce wealth. Keynes shared the idea of underutilization of resources but did not agree to the violent nature of capitalism. Keynes also criticized the opinion of Adam Smith regarding the presence of circularity in the system. The increase in demand of any particular product forced the firms to increase their levels of production and decrease the amount of inventories they have (Caporaso and Levine). An increased level of production meant that there will be more utilization of resources in the form of labor and capital. Revenues are created for all parts of a supply chain when there is an increase in the production of goods and services. These revenues are either used for purchasing further resources or saved to be used in future to purchase capital equipment. The circulation concept presented by Adam Smith did not consider the concept of saving or any other resources flowing out of the circular system. The concept of selling and buying put forward by Adam Smith was criticized by Keynes by arguing that not all the amount of money received by sellers is used to buy the things required. The flow of value is maintained by the fact that a major portion of worker’s income is dependent upon their wages or salaries. Firms seek revenues and profit so that they can reinvest for further production. A part of money received by all parts of the system goes out of the normal circular flow. This money is used to satisfy the speculative motive of money supply. In the current scenario, financial institutions have an important part to play in the whole system. They provide the producers with the required amount of capital to extend their operations. For a private system to work properly, individuals should be allowed to own property or capital stock unlike Adam Smith who argued that people will sell the commodities to buy their necessities. A self-regulating economy is not expected to provide proper livelihood to people who are dependent on it and also cannot provide the capital needed for the expansion of production when needed.

**Answer 3**

Yes, the critiques of both Marx and Keynes on Adam Smith are valid. The first reasons of this argument is that he presented a very simplistic view of the economic activity undertaken by the society. There were people at that time who gave loans to people even at that time. This amount could be used to extend the production which would mean that some part of money will be used for purposes other than buying and selling the products. The existence of invisible hand has also been correctly criticized by both economists. Keynes in particular argued that the government will have to play an active part in the economic activity if the system has to run smoothly. Marx introduced the concept of profit in the buying and selling notion presented by Adam Smith. The circularity of economic system has been challenged by Marx and Keynes in different ways. For the modern economic systems, there is a considerable part played by the financial services. Keynes concluded that business capital spending is an absolute must for the economic system to prosper. If the businesses cannot initiate the capital spending, government has to intervene in the proceedings to make sure that enough money is available for businesses to spend on capital investments. The thesis statement can be developed from the whole analysis, Adam Smith argued that the economic system will be regulated to grow by an invisible hand. Marx had an opinion that there was uncertainty in the whole system and at almost all the stages of an economic system. Keynes came up with the role of government to rectify any issues faced by the economic system.

# **Works Cited**

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