

# When Adam Smith and Karl Marx Encounter Social Enterprise

## Abstract

This paper aims to analyze how would Adam Smith as a representative of capitalism and Karl Marx as a representative of communism response to the rise of social enterprises as a force for the betterment of society.

## I. Introduction

Undoubtedly both capitalism and communism have their own drawbacks and blind spots. It is not surprising to find that each ism triggers certain social problems. When time comes to current decades, some suppose that it is time for people to review and reformulate a new model for betterment of society, especially after the dissolution of the Soviet Union and various global financial crises. Social enterprise thus debuts in the state of world and seems to navigate between the two extreme isms, offering a ‘third way’ to the world. Social enterprise is *‘businesses whose primary purpose is the common good [which] use the methods and disciplines of business and the power of the marketplace to advance their social, environmental and human justice agendas’*<sup>1</sup>. The question is whether Adam Smith and Karl Marx consent to this solution.

## II. When Adam Smith Encounter Social Enterprise

---

<sup>1</sup> Social Enterprise Alliance; <https://www.se-alliance.org/why#whatsasocialenterprise>

In the Wealth of Nations, there is no glue for justifying the exploitation to labour or the underprivileged by the capitalists but division of labour as a means to achieve public opulence<sup>2</sup>. Adam Smith proposed that a larger 'cake' could be beneficial for the whole society. If he lived in present day and observed those social problems in capitalistic cities, he would probably approve the model of social enterprises in a sense that it serves as a division of labour in industries and it is a non-government approach.

### **Relation between the growth in production and public opulence**

Adam Smith believed that a production growth could finally lead to a public opulence. However in reality that is not universal truth. Taking a look at our home city, Hong Kong is widely recognized as a developed and rich city, on the other hand, it is also infamous for its large divergence between the rich and the poor. The Gini Coefficient of Hong Kong has been over 0.5 since 1996<sup>3</sup>. The conflicts between rich and poor are intense in Hong Kong, so do many other cities. Public opulence, of course depends on how big the 'cake' is, but also heavily relies on how the 'cake' is distributed.

Moreover, some underprivileged suffers for reasons beyond low wage rate. Intergenerational poverty, racial discrimination, gender discrimination and so on can by no means be solved by the growth in production, but rather can be resolved by organizations that aim to equalize the opportunities for the needy with unrealized competence. Dialogue in the Dark Hong Kong limited which is a social enterprise originated in Germany provides a '*platform for communication and intimate exchange*'<sup>4</sup> between the public and the blind, proving the blind can be able to work and

---

<sup>2</sup> Book I, Chapter I, p.427

<sup>3</sup> Wenweipo, 2010

<sup>4</sup> Dialogue in the Dark Hong Kong limited;  
<http://www.dialogue-in-the-dark.hk/web/subpage.php?mid=10&lang=en>

inspire people.

### **Social Enterprises As a Reformulated Capitalism**

Though social enterprises aim at tackling unmet social needs which are unlike profit-maximizing firms, *'In many ways, the human and financial capital inputs essential to the entrepreneurial venture are quite comparable between social and commercial entrepreneurship. Both commercial and social entrepreneurs must consider the managers, employees, funders, and other organizations critical to their success, and how to capture this human talent for their ventures'*<sup>5</sup>. One thing has to be highlighted that social enterprises are no philanthropies. Those enterprises have to develop a sustainable business model to survive in market. There is no boarder between the market of social and market enterprises. Therefore, social enterprises should be regards as a part of capitalism.

This new form of capitalism can serve as a revised version of division of labour in industries which avoid government intervention in market failure. Smith might suggest the social enterprise could be industries specializing in meeting the unmet social needs while the traditional enterprise could be industries specializing in producing usual goods and services so that both market would be satisfied and attained social efficiency. Moreover capitalism refuses any form of government intervention even in a situation of market failure because advocates of capitalism believe that the invisible hands will solve things out. Perhaps in the long run it is true yet those urgent social problems cannot wait. Either government or market has to response prompt and specifically. The emergence of social enterprise can be an effective market response. Social enterprises are the complement of traditional

---

<sup>5</sup> Austin, Stevenson and Wei-Skillern, 2006

commercial firms. Taking a further step, this shock of business patterns can lead to a remodeling of traditional commercial firms into a more sustainable one.

### **III. When Karl Marx Encounter Social Enterprise**

In the Wages of Labour Karl Marx imposed a great criticism in capitalism .

*‘[A]ccording to Smith a society is not happy in which the majority suffers, and since the wealthiest state of society leads to suffering for the majority while the economics system (in general, a society of private interests) leads to this wealthiest state, it follows that social misery is the goal of the economy.’*<sup>6</sup> To a certain extent he was right. Ironically communism suffers a great fall before capitalism. Would he accept social enterprises, a reformulated capitalism? I presume that Marx would get confused at first and might try to argue but he would still keep a close eye to observe the trend of social enterprises.

Marx would get confused because many of the social enterprises provide services which are totally differ from factories at his time. These two forms of capitalism, to some extent, are incomparable. Reading the 1844 manuscript, Marx seems to pose the entrepreneurs as a foe of workers. The workers only work for money as a means of living. On the contrary, social enterprises adopt a different approach. There are only a few core staff members in a social enterprise. Social entrepreneurs heavily rely on much motivate volunteers and intra entrepreneurs<sup>7</sup>. It is not possible to have a non-paid person in a commercial enterprise, because of difference in the motivation of labour. The relationship between workers and employers in two type of enterprises cannot be compared in a same basis, let alone the further discussion in exploitation of workers.

---

<sup>6</sup> Wages of Labour, p.457

<sup>7</sup> Austin et al., 2006

For one thing is sure, there is no alienation of workers in social enterprises. Through the social entrepreneurship workshops arranged by college, I observed that the employees of Good Labs and Education for Goods are both dedicated into their works. Besides salaries, sense of achievement and contribution also are fruit they gained. The motivation of the employees in a social enterprises drives by the believe of ‘everyone is a change marker’. They are not alienated from products because more changes they made will not let him be exploited more by the capital. They are not alienated in production processes. The feeling of alienation in product processes is that ‘*he does not fulfil himself in his work but denies himself, has a feeling of misery rather than well-being*’<sup>8</sup> From my observation, it is not the case in social enterprises. Finally, they are not self-alienation. Marx emphasized that man is a species-being, a free being. In a social enterprise, if an employee wanted to trade themselves for anything but self-recognition in their own job, even the social entrepreneurs would kick them out. A staff member in self-alienated state may be a ‘good’ employee in other businesses, but definitely not in social enterprises.

Marx might argue about social enterprises solved problems mainly brought by capitalism. Without the eliminating the capitalist and private ownership, new problems will be still generated or regenerated. Most of the workers are stilling suffering. This is doubtless correct. However I am not saying that social enterprises are cure-all and commercial enterprises need not to review their model of operation. Nothing can solve social problems solely and completely. A tide of corporate social responsibility now sweeps across the world. A Corporate social responsibility is defined as ‘*the responsibility of enterprises for their impacts on society*’ and ‘*should have in place a process to integrate social, environmental, ethical human rights and*

---

<sup>8</sup> Alienated Labour, p.461

*consumer concerns into their business operations and core strategy in close collaboration with their stakeholders*<sup>9</sup>. Normal commercial firms actively take a reformation.

Clearly, social enterprises cannot fully resolve the root of workers' suffering. None, nevertheless, should deny the positive social impact by the movement. A butterfly flaps its wings can cause a storm in the other side of the earth. At least Marx would not be grounded to criticize social enterprises like the way he did to classic capitalism so far. Both of the communists and us have to wait and see the development of social enterprises.

#### **IV. Conclusion**

The idea of social enterprise is undoubtedly a shock to both the capitalism and communism. The core values of two isms lie in social enterprises at the same time. It may be better way to describe social enterprises as a dare fusion of two isms. An outcry of reform towards both isms has long been loud and clear. As social enterprises are still on the state of development, there is uncertainty as well as potential. Yet we should keep optimistic; meanwhile make it work in a down-to-earth manner.

(1571 words)

#### **Reference**

The Case for Social Enterprise Alliance. Social Enterprise Alliance. Retrieved April 28, 2013. From <https://www.se-alliance.org/why#whatsasocialenterprise>

---

<sup>9</sup> European Commission;  
[http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index_en.htm)

Adam Smith. *The Wealth of Nations*. Tr. G.D.H. Cole. Miami: BN Publishing, 2013. In *In Dialogue with Humanity: Textbook for General Education Foundation Programme*. 3rd ed. Hong Kong: Office of University General Education, The Chinese University of Hong Kong, 2013. Book I, Chapter I. 427

香港過去的堅尼系數統計表 (2010, April 28). Wenweipo. Retrieved April 28, 2013. From <http://paper.wenweipo.com/2010/04/28/ED1004280042.htm>

Mission. *dialogue in the dark Hong Kong*. Retrieved April 28, 2013. From <http://www.dialogue-in-the-dark.hk/web/subpage.php?mid=10&lang=en>

Karl Marx. *Economic and Philosophic Manuscripts of 1844*. Tr. G.D.H. Cole. Miami: BN Publishing, 2013. In *In Dialogue with Humanity: Textbook for General Education Foundation Programme*. 3rd ed. Hong Kong: Office of University General Education, The Chinese University of Hong Kong, 2013. 457, 461.

Austin, J., Stevenson, H., & Wei-Skillern, . (2006). *Social and Commercial Entrepreneurship: Same, Different, or Both?*. *ENTREPRENEURSHIP THEORY AND PRACTICE*, 11. Retrieved April 28, from WILEY ONLINE LIBRARY

Sustainable and responsible business-Corporate Social Responsibility (CSR). European Commission, Enterprises and industry. Retrieved April 28, 2013. From [http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index_en.htm)