

Spring 2023 PE101 Midterm (3 pages total)

1. In his 1962 book, *Capitalism and Freedom*, Friedman asserts that competitive capitalism brings about “co-ordination without coercion.” **What does Friedman mean and do you agree with the notion that capitalism brings about coordination without coercion?** In your essay, cite Friedman and two of the following scholars: Hayek, Williams, Marable, Federici, Mies, and/or Klein. In your concluding paragraph, briefly reflect upon how the first part of this course has shaped your perspective on the history of capitalism. **Word Count: 397**

Friedman claims that capitalism generates cooperation without coercion through the process of exchange, a statement I completely agree with. Fundamentally, the capitalist model encourages the production of goods, and by extension, capital. Therefore, it is in one’s best interest to seek and exploit the means that maximize this productivity. According to Friedman, the process of capitalist exchange is a system that generates “increased product made possible by the division of labor”, thereby creating a situation where “both parties to an economic transaction benefit from it” (Friedman 1962, 13). Therefore, if productivity is to be maximized, then cooperation is necessary to achieve such a result, despite no entity compelling society to cooperate.

This is also in agreement with Hayek, who argues that “knowledge of...time and place” is an advantage given to “every individual...because he possesses unique information of which beneficial use might be made”, but this can only be made beneficial if “the decisions are left to him or are made with his active cooperation” (Hayek 1945, 3). In other words, cooperation between individuals unleashes their respective advantages, and thus is required to achieve an increase in productivity. In addition, Hayek argues that “the price system” has facilitated “a division of labor and also a coordinated utilization of resources” (Hayek 1945, 8), further highlighting that cooperation arose from the creation of a capitalist price system.

As Klein argues, Friedman’s notion doesn’t hold for all circumstances. For instance, she explains that “capitalism has been midwifed by...coercion...inflicted on...countless individual bodies” (Klein 2007, 23), highlighting the fact that the free market is not always devoid of coercion. In the case of Chile, the sudden introduction of the free market gave rise to totalitarianism, a form of government which *demand*s cooperation through coercion. While this is certainly true, I believe that this argument misses the point: the examples Klein provides involve incredibly specific circumstances, such as crises, that are not representative of the general way in which competitive capitalism operates. Therefore, it seems unfair to assert that capitalism does not invite voluntary cooperation based solely on this argument.

In summary, I fully agree with Friedman’s claim that capitalism brings about coordination without coercion. Overall, the first half of the course has taught me that capitalism’s history is much more complex than I had initially thought, and it’s incredibly interesting to read about how ideas evolved from Smith’s time to the present day.

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2. We have discussed several shifts that occurred in the 1970s and 1980s. The first is the ascendance of market liberal thinking, particularly the ideas of Hayek and Friedman. The second is the increasing importance of finance in the economy. The third is the decline of unions. **Discuss THREE specific ways in which market liberal ideas, financialization, and the decline of unions have transformed corporations, government, banks, society and/or culture.** In your essay, draw upon the work of three of the following scholars: Klein, Brown, Krippner, Davis, and Western & Rosenfeld. You may supplement these three scholars with references to lecture with this format (Lecture 3/2, #15). In your concluding paragraph, briefly reflect upon the extent to which market liberal ideas, financialization, and/or unions have affected your life, your worldview, or your family. **Word Count: 399**

Friedman's market liberal ideas drastically transformed the Chilean economic landscape, the rise of finance altered the way corporations generate income, and the decline of unions contributed to a rise in social inequalities.

Firstly, Friedman's market liberal ideas were almost directly responsible for the establishment of a totalitarian government that rose in Chile, as he "acted as adviser to...Pinochet" (Klein 2007, 8). During this time, Friedman advised Pinochet to "cut government spending" (Klein 2007, 99) among other requests so that Friedman's free-market views may be "shocked" into the Chilean economy. However, instead of a thriving economy, Friedman's economic ideas had "sent the economy into a deep recession", causing the Chilean economy to "decline 15 percent" (Klein 2007, 100-101), a far cry from the prosperous results that Friedman had promised.

The financialization of markets, as Krippner describes it, is the process in which the "tendency for profit making...increasingly occur[s] through financial rather than productive activities" (Krippner 2011, 4). As a result, the rise in financialization during the 1980s caused corporations to drastically redefine the primary method they generate income, as the proportion of financial profits in corporations rose to nearly 20% by the end of the decade. (Lecture 3/2, #10). Furthermore, financialization has also greatly favored low-employment corporations over high-employment ones, resulting in the decline in the spread of wealth during this period (Lecture 3/2, #11).

Finally, the decline of unions prompted many contractors to "adopt illegal tactics" against labor laws such as "discrimination, coercion, and dismissal of workers who...supported unionization" (Western & Rosenfeld 2012, 91). As a result, the number of complaints about these practices "roughly doubled" (Western & Rosenfeld 2012, 91) during this time, highlighting the social crises that the decline in labor unions had on the social landscape. Furthermore, this decline in union popularity has also been correlated with wage inequalities, contributing to one third of inequalities among men and one fifth among women. (Lecture 3/2, #50).

Perhaps most obviously, my education was impacted by the labor strike by the union of student workers at Berkeley, which caused a major disruption to my learning and the grades I could have gotten that semester. Furthermore, even though my family does not invest in the stock market itself, we are indirectly affected by the health of the global market as the income my parents make is also directly tied to the financial health of the corporation under which they work.

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3. What are the potential benefits and perils of pursuing market liberal reforms for a small, largely rural country that has recently democratized? Imagine you have been tasked to write a memo about market liberal reforms for the leader of this country. Typical market liberal reforms include, but are not limited to, deregulation, privatization, tax cuts, fiscal austerity, and openness to international trade and foreign investment. In your memo, draw upon the work of at least one market liberal (Smith, Hayek, Friedman, and/or Bhagwati) and at least one who is critical of market liberalism (Polanyi, Rodrik, Klein, Brown, and/or Davis). In your concluding paragraph, briefly summarize your perspective on market liberal reforms. Begin your memo with Dear Madame President,...

Word Count: 400

Dear Madame President,

I think that there could be many benefits to embracing market liberal reforms in our country, as long as we're careful with how we implement these liberal reforms. For starters, foreign policies that invite international trade can boost our local economy, while domestic policies that promote productivity such as abolishing right-to-work laws can take advantage of the competition in our largely rural communities to generate more capital. In the case of inviting trade, this can be a way for us to "link [with the rest of the world] peacefully and democratically" (Friedman 1962, 5), allowing us to garner more financial opportunities from foreign countries. Furthermore, abolishing right-to-work laws allows employers to match with employees easily, promoting an environment where "employees...will be able to satisfy [their needs] ...by finding employment with corresponding employers" (Friedman 1962, 116), therefore optimizing productivity since this maximizes the number of jobs.

That said, we must make sure that we don't go too fast in implementing these changes. As we saw with cases like Brazil, the openness to foreign investment was too rapid and caused a "deepening poverty" to rise, ultimately leading to the government "shut[ting] down democracy" and "abolishing civil liberties" (Klein 2007, 81). We've also seen what can happen if changes are implemented too quickly – take Chile for instance, where Pinochet sent the country into a "deep recession" (Klein 2007, 100), largely due to Friedman's "shock doctrine" and his philosophy of rapid, radical changes to the economy. Managing the rate at which these policies are enacted such that a "shock" doesn't happen is difficult and is certainly something to pay attention to. In addition, Rodrik has also warned me that we cannot hope to pursue all aspects of his "political trilemma" – that is, we cannot achieve "democracy, national determination, and economic globalization" (Rodrik 2011, xviii) at the same time, so we need to be conscious of not spreading ourselves too thin.

Overall, I do believe that if we implement these policies correctly and at a sufficient pace that we don't induce a "shock" to the system, then these market liberal reforms can propel our national economy forward in a positive direction. This is also very similar to my own perspective about market liberal reforms – on paper, they can be great reforms, but they must be carefully implemented, with sufficient consideration to the country's socioeconomic situation in order to achieve the desired growth.