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.

Friedman claims that capitalism generates cooperation without coercion through the process of exchange, a statement I 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 maximizes 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, he 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 *demands* 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 historical scholars and their interpretation of the free market and the actors involved.

[399 words]

**Are markets self-regulating?** In your essay, first explain what it means to say that markets are self-regulating, drawing upon the ideas of one of the following scholars: Smith, Hayek, Friedman. Second, be sure to contrast this scholar’s perspective on self-regulating markets with that of Polanyi and Keynes. Include partial quotes from their work in your essay.  In your concluding paragraph, briefly reflect upon the broader political, policy, economic, or social implications of the common perception that markets are self-regulating.

Personally, the notion of a completely self-regulating is an idealization that is impossible to achieve. Instead, it requires government intervention to create and maintain. From Smith’s perspective, a self-regulating market is defined as a “system of natural liberty.” (Smith 1776, 39) In other words, individuals can freely choose their specialization, resulting in a market that “establishes itself of its own accord,” without the intervention of the government. This is because, as Smith asserts, “the certainty of being able to exchange…encourages every man to…[focus on] a particular occupation,” (Smith 1776, 34) thus resulting in the specialization of their craft. This notion that every individual will find a specialization is the fundamental reason that Smith believes in a self-regulating market. As a result, Smith believes that the government should be relegated to solely “establishing an…administration of justice” (Smith 1776, 40) among other social matters.

By contrast, Polanyi argues that international trade was “created by the intervention of the state” (Polanyi 1944, 66), indicating outright that intervention from the state is necessary. This is further supported as he argues that highly developed markets “throve under…a centralized administration”, implying that “regulation and markets…grew up together” (Polanyi 1944, 71). Contrary to Smith, Polanyi firmly argues that government regulations are in fact *necessary* for a capitalist market to thrive, reinforcing the idea that governments and regulations are required for a market infrastructure to exist.

Similarly, Keynes corroborates Polanyi by asserting that “it is *not* true that individuals possess…’natural liberty’ in their economic activities” and argues that “the ideal…unit of control…lies somewhere between the individual and the modern State” (Keynes 1926, 1). This highlights that while Keynes doesn’t believe in the state completely regulating markets, he does believe that some form of regulation is necessary for capitalism to thrive. From Keynes’ perspective, the government should be doing “things which at present are not done at all”, further highlighting that intervention from the government is indeed necessary for a market society to exist.

In summary, the presence of the government is required for a capitalist market to properly serve its citizens. One of the major consequences of the perception that markets are purely self-regulating is that it fails to acknowledge the role of the state in maintaining economic markets. In doing so, it opens the door to the possibility that we lose faith in the government on more pressing issues and debates that occur on the world stage.

­[400 words]

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 - the slide number). 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.

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 nearly 30% of corporate profits in 2012 were now financial in nature. (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 a 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 company under which they work.

[394 words]

**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,...

Dear Madame President…

Firstly, I think that there could be many benefits to embracing market liberal reforms in our country, so long as we’re careful with how we implement these liberal reforms. For starters, foreign policies that invite international trade can promote and 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 areas 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 maximizing productivity since this maximizes the number of jobs.

That said, we must make sure that we don’t go too fast when it comes to making 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 radical changes can do if they’re implemented too quickly – take Chile for instance, where Pinochet sent the entirety of Chile 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 certainly something to consider. In addition to this, 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.

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 my personal opinion about market liberal reforms – on paper, they can be great reforms, but they must be carefully implemented, with sufficient consideration to the country’s economic situation in order for them to achieve the desired growth.

[395 words]

**Do Schumpeter and Mazzucato present complementary or opposing arguments about innovation in the American economy?** First, explain each scholar’s view on who and what is responsible for innovation, then explain why you believe their views are complementary or opposing. In your concluding paragraph, briefly reflect upon the political, policy, economic and/or social implications of celebrating individual entrepreneurs as heroes of the economy.

Schumpeter and Mazzucato present largely complementary arguments about innovation in the American economy. Firstly, Schumpeter argues that capitalism is “an evolutionary process”, one which “never is and never can be stationary” (Schumpeter 1942, 82), implying that growth is implicit in the structure of capitalism. She furthers this notion with the term “creative destruction”, where he describes how this growth necessarily “destroys the old [economic structure]” and “creates a new one” (Schumpeter 1942, 83) in its place. For Schumpeter, it is the capitalist engine itself which drives innovation, and in this process opens new markets, destroying old ones in order to make way.

Similarly, Mazzucato argues that innovation is the “catalyst for change, the spark that lights the fire” (Mazzucato 2015, 80). Unlike Schumpeter, she believes that it is the state that drives innovation, as the public sector is able “to invest in areas with much higher risk” (Mazzucato 2015, 25). To Mazzucato, the ability of the public sector to withstand risk is the reason they drive innovation – dubious technologies could never be invested in by the private sector for fear of investors pulling out, but the public sector does not have to worry about this since it is publicly funded. Mazzucato specifically discusses how “Google’s algorithm was funded by a public sector…grant”, and that, “many of the most innovative young companies were funded…by public venture capital”, as opposed to private ones (Mazzucato 2015, 17).

Comparing the two scholars’ interpretations of innovation, it’s clear that they have more similarities than differences. Schumpeter simply argues that capitalism is the primary driver for innovation, Schumpeter simply expands upon this by pointing out which *part* of capitalism does all the heavy lifting. Furthermore, Mazzucato’s arguments also implicitly agree with Schumpeter’s; as innovations are introduced, it inevitably replaces old technology that becomes irrelevant in the face of these innovations. The similarity in their arguments also ties back to Polanyi’s assertion that the market was “created by the state” (Polanyi 1944, 66), again highlighting the importance of the state in economic policy.

Overall, celebrating individual entrepreneurs simply overlooks the role the government and the public sector plays in the invention and production of new technology, and opens the door to the possibility that we forget the public sector’s role in innovation entirely. This is potentially devastating for the development of future technologies, since rate at which technology develops will be drastically slower without the public sector.

[400 words]