I. Theory of Free Market Capitalism

A. Adam Smith (1723-1790)

B. The Bible: “An Inquiry into the Nature and Causes of the Wealth of Nations”(1776)

C. Economics as science and social theory

1. economy

a. autonomous sphere

b. like physical universe

c. economists are scientists of economy

2. discovered

a. natural phenomenon: market

b. follows laws

3. organize economic institutions according to laws

D. Thesis: Capitalism is the best form of economic organization

E. Characteristics

1. ownership: private

2. production and distribution

a. for sale

b. owners control

3. laissez faire

4. division of labor

a. dependent wage labor

b. specialization

5. right: individual pursuit of profit

6. social organization: guarantee #5

1. Socialism: Characteristics

1. collective ownership

2. production and distribution

a. for use?needs based

b. directed

c. equality

3. work

a. cooperative for use/needs

b. worker controlled

4. economic rights

G. The Best!

1. allows the market place to function without interference

"A freely competitive economy will regulate itself by the "invisible hand of the market place."

2. understands the “truth” about human nature

a. psychology: human beings are greedy

b. human beings motivated by self-interest

c. self-interest = pursuit of profit and wealth

3. goal of political economy of nation is to increase wealth

a. wealth is product of labor

b. increased division of labor = increasing wealth

H. Laws of the market place

1. supply and demand

a. needs create market place demands

b. market responds by creating supply

i. individuals (entrepeneurs) create products to meet demand

ii. guarantees competition

c. competition guarantees

i. consumer needs will be met

ii. high quality

iii. low price

iv. rewards individuals

innovative

highly motivated

efficient

risk taking

v. monopolies a threat

d. supply and demand guarantees that social needs will be

met

2. Second law : accumulation of profits

a. capitalist will accumulate wealth

b. reinvest in technologies of production

c. better and better world

3. Third Law: good for the capitalist is good for the worker

a. free labor: workers can move from job to

job as each area tries to meet needs

b. competition between capitalists forces employer to keep wages up

c. wages will necessarily be above subsistence

4. Fourth law: laissez-faire or no government intervention

a. disrupt laws of market place

b. negatively affect incentive

c. reward losers

F. No government intervention EXCEPT:

1. Create financial infrastructure

a. system of finance

b. taxes

c. system of tariffs

d. U.S. Constitution Article I Sec 8

2. Create physical infrastructure

3. Military

a. defense

b. expansion for resources

c. protection of interests

II. Theory of Free Market Today

1. U.S. Economic and Social Policy
   1. Since 1980s
   2. Goals

a. deregulation: market is self-regulating

b. privatization: private industry more efficient than government

c. eliminate social programs: distorts the marketplace

3. Examples

a. deregulation

i. concentration of ownership: size and share monopolies

ii. disempowering regulatory institutions

b. privatization

i. outsourcing government work: military

ii. giving away public resources

c. eliminate social programs

i. welfare

ii. medi-care and social security

* 1. Contradictions

a. bailouts

b. “wealthfare”

B. Globalization and free market theory: neo-liberalism

1. Def: Globalization

2. Means: global free market

a. means free trade

i. free trade agreements

ii. rules and regulations: no tariffs or subsidies

iii. regulatory institutions

b. loans and aid: IMF, World Bank

c. structural adjustments programs

i. privatize publicly owned industries

ii. open markets

iii. sell resources cheaply

iv. raise export crops (cash)

v. user fees for education and health

vi. privatize government services (water)

vii. downsized government (jobs)

viii. eliminate unions

ix. “export processing zones”

* 1. Resistance
     1. saying “No” to trade agreements

b. nationalizing industry and resources

1. no more “loans” from World Bank and IMF
2. electing leaders who say “No”
3. “other ways”