I. Theory of Free Market

A. Theorists

1. Classical: Adam Smith;

2. Contemporary: Milton Friedman

B. The Bibles

1. Smith *An Inquiry into the Nature and Causes of the Wealth of Nations*(1776)

2. Friedman’s *Capitalism and Freedom*

C. “The Great Transformation” and the Emergence of the Economy and Economists

1. economy

a. autonomous sphere

i. governed by laws

ii. analogous to physical universe

iii. self-regulating

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

b. origin: personal and social wealth and progress

. “a mechanism for maintaining and sustaining an entire society”

2. economists

a. scientists

b. discover and explain laws of economy

c. develop policies for social organization

II. Smith’s Theory of the Free Market

A. Assumptions

1. “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

2. free market creates conditions to maximize pursuit of profit

a. private property

b. competition

c. governed by laws therefore predictable results

“a certain type of behavior (self-interest) will in a certain social framework (capitalism) bring about perfectly foreseeable results (fulfillment of individual and social needs) “

B. Laws of the Market Place

1. First law: 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 demands will be met

ii. high quality

iii. low price

iv. rewards individuals

innovative

highly motivated

efficient

risk taking

v. monopolies a threat

d. competitions supply that social needs will be

met

e. competition progress

2. Second law: accumulation of profits

a. capitalist will accumulate wealth

b. competition guarantees reinvestment

i. means of production

ii. increasing division of labor

c. increasing national wealth=social progress

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

a. free labor

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

C. Role of government: limited but necessary

1. financial infrastructure

2. physical infrastructure

3. security: Police

4. Civil Courts: contracts

5. public education

6. no tariffs, no government protection of industry

7. “unproductive” spending

G. Critical of Capitalism

1. capitalists: “mean rapacity”

2. negative effects on workers

3. little hope for newly emerging phenomenon “corporations”

H. American Social Theory and Free Market theory: Social Darwinism

1. U.S.: dominant sociological theory early 20th century

2. Combination of ideas from theories: Darwin (biologist), Herbert Spencer (sociologist) and Smith (economist/social theorist)

3. Thesis: humans (individuals, countries, races) are evolving through a struggle for survival.

4. Argument

a. Society is evolving (Darwin) means progressing

b. free market (Smith) is environment for struggle

c. “survival of the fittest”(Spencer) is a necessary and good thing.

i. good for society

ii. good for species

5. Fittest

a. individuals: rich

b. nations: winners

c. races: remaining

6. No Government intervention: social welfare

a. allows the weak to survive

b. weakens the species

i. don’t mourn extermination of races: weak

ii. don’t feel bad for poor: weak

7. Exception: Government intervention

a. eugenics

b. “feeble minded”