I. Theory

A. Definition: a set of propositions that explains certain phenomena.

1. natural science theories: explain the natural world.

a. physics: atomic theory

b. biology: evolution and genetic theory

2. social theories: explain the human world.

a. economic theories: economy

b. political theories: political systems

c. psychological theories: mind or psych

3. sociological theories: explain human societies.

a. social order

b. social institutions

c. systems of stratification

d. social roles and socialization

e. social change.

C. Basic Assumptions

1. phenomena need to be explained
2. can be explained by the application of the scientific method
3. explanation is valuable: leads to progress
4. above: 1-3 is relatively new

a. Pre Modern: Western Society and the Middle Ages

i. Great Chain of Being=place in the world

ii. Church dogma=knowledge

b. social change and rise of Modern Western Society

i. Protestant Reformation

ii. Science and technology: Newton, Galileo

iii. Revolutions

industrial

political

5. Modern World

a. new forms of political organization

b. new forms of economic organization

c. new forms of social organization

d. new cultural orientation

e. Therefore need new explanations

D. Characteristics of theories

1. Propositions are coherent and logically consistent

2. theory construction has a practical value

a. Bacon: power over nature

b. natural science

i. genetic theory

ii. atomic theory

iii. theory of gravity

iv. electromagnetic theory

b. human sciences=progress

3. theory construction is rule-governed

a. knowledge is discoverable by applying scientific method: empiricism

b. assumptions

i. mind independent reality: objective world

ii. objective reality governed by natural laws

iii. scientific method leads to discovering facts about

objective world

iv. factual knowledge leads to understanding universal laws

v. theory is the coherent statement in propositional form of universal laws

vi. Auguste Comte: Law of Three Stages

b. scientific community

i. peer review

ii. verification/ falsification

D. Not knowledge, not theory

1. religious creation stories

2. personal opinions

3. informed opinions

II. Theory of Free Market Capitalism

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. Economics as science

1. economy

a. autonomous sphere

b. like physical universe

c. economists are scientists of economy

2. discovered

a. natural phenomenon: market

b. natural laws: laws of the market place

c. capitalism

D. Economic theory as social theory

1. organize economic institutions according to laws

2. organize social institutions to conform to capitalism ideology

E. Characteristics of capitalism

1. ownership: private

2. production and distribution of goods and services

a. logic of profit

b. owner control

3. laissez faire

4. “free” wage labor (aka wage dependent labor)

5. right: individual pursuit of profit

6. social organization: guarantee #5

1. Socialism: Characteristics

1. collective ownership

2. production and distribution

a. needs based

b. worker directed

c. equality

3. labor: cooperative for use/needs

4. rights

a. housing

b. food

c. health care

H. Smith: Capitalism

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: labor theory of value

b. increased division of labor = increasing wealth

I. 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

J. Role of government

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

4. Police

5. Civil Courts: contracts

K. Social Darwinism

1. Combination of ideas: Darwin, Edmund Spencer and Smith

2. Thesis: the application of Darwin’s theory of evolution to society allows us to understand that success is deserved, as is failure.

3. Theory

a. Society is evolving (Darwin) means Progressing

b. Evolution means survival of the fittest (Spencer)

a. humans (individuals, countries, races) engaged in struggle for survival

d. economic competition in a capitalist society (Smith) is environment for struggle

e. survival of the fittest.

4.. No Government intervention: social welfare

a. allows the weak to survive

b. weakens the species

c. don’t mourn extermination of races: weak

5. Exception: Government intervention

a. eugenics

b. “feeble minded”