I. 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

II. Theory of Free Market Today

A. Milton Friedman’s Theory

1. Thesis: capitalism is not only best economic system but a progressive force for societies; it leads to human and political freedom

2. Argument

1. agrees with Smith

i. economy is autonomous sphere

ii. governed by laws of the market place

b. market and individual autonomy

i. self-directed individuals pursuing economic ends

ii. negotiating market place as consumers or entrepeneurs

c. creates environment for:

i. democracy

ii. religious freedom

d. Smith: less role for government

i. limited to defense and security

ii. intervention undermines laws of market place

iii. intervention undermines individual actors

1. Policy Goals

a. deregulation: market is self-regulating

1. privatization:

i. private industry more efficient than government

ii. “. . . opportunity” New Orleans (123 to 4, 7 to 31)

c. eliminate social programs: distorts the marketplace

d. globalization and free market

e. shock doctrine

i. people are used to government intervention

ii. create shock or take advantage of disaster

“For us, the fear and disorder offered real promise.”

iii. impose “ free market” therapy

privatize publicly owned industries

no tariffs or subsidies

user fees or privatized govt services

downsized government (jobs)

eliminate unions

4. U.S. since 1980s

a. deregulation

i. limit or eliminate government oversight

ii. banking industry

b. privatization

i. outsourcing government work: military

ii. public resources to private sources

c. eliminate social programs

i. welfare

ii. medi-care and social security