

Session 13: Adam Smith

- Introduction:
 - Historical Context - 1723-1790
 - Mercantilism - Dominant economic doctrine 1500-1750
 - Origins of Mercantilism
- Central Principles of Mercantilism
 - Wealth = surplus of gold and silver.
 - Avoid Trade Imbalance at All Costs
- Three Central Tenants of Mercantilism
 - Hoard gold and silver
 - Increase exports/ decrease imports
 - Self-sufficiency
- Mercantilist Policies:
 - Promote export industries - focus on production for export, not domestic consumption
 - Protectionism - high barriers to import trade
 - Regulate export trade - State created monopolies (Charters)
 - i. Examples
- Problems caused by Mercantilism:
 - Expansion of Colonialism
 - Transatlantic Trade Wars 16-17 cent
 - Rising Food Prices and Social Unrest
- Smith's Critique of Mercantilism
 - Faulty understanding of wealth creation
 - Focuses on producers interests, neglects consumers
 - Supports monopolies
- Ultimate Purpose of Political Economy:
 - Consumption!
 - Promotion of Liberty
- Role of the State
 - Small government is best
 - Three central functions
- Real Enemy -- "Mean Rapacity" and "Monopolizing spirit of Merchants and Manufacturers"
 - Undermines domestic industry, impoverishes workers, limits employment
 - Greatest evil - high profit
 - Most fatal problem -- Profit destroys the "sober virtues"
- Capitalism and Protestantism
 - Martin Luther - Free individual
 - Calvin - Doctrine of Predestination

- Critiques of Weber
- Smith's Solution - Invisible Hand - Newtonian model applied to society
 - Allow self-interest to guide human behavior → no need for government plan or even attempts to foster benevolence
 - Open markets = End all Government intervention and regulation
 - Focus on consumers not producers
- Free Markets
 - Natural system of liberty
 - Creates wealth
 - Promotes equality
 - Undermines Monopoly
- Three mechanical laws: Self-interest, Specialization, Competition
 - Self-interest → fosters community and social good
 - Specialization → increases efficiency and production
 - Competition → undermines monopoly, promotes equality and free choice
- The Free Market is a Self-Regulating System
 - Gives us what we want at the prices we want!
 - Prices are self-correcting → Laws of supply and demand - price mechanism
- The Free Market has become the basis of all social goods
 - Provides liberty, choice, equality, wealth,
 - Increased leisure, Increase in available goods
 - Happiness!
- Smith's Great transformation
 - Greed leads to social good
 - Greed creates community
 - No need for a Leviathan
 - No need for 'just prices'
- Is Economic Freedom an Illusion? Is Specialization self-actualization???