

# The VOTE Textbook

## Student Notes

### Chapter 4: The Great Economic Thinkers

#### Opening Story: The jigsaw puzzle

#### Classical/Conservative Theory

Adam Smith, *Wealth of Nations*, 1776

1. Reject mercantilism
2. Embrace capitalism and the profit motive
  - Price signals (the invisible hand) arise when suppliers meet demanders in a market. They function as incentives.
  - Incentives motivate firms and individuals to act, which leads to maximum economic well-being for society.

According to conservatives, individuals and firms act in their own self-interest, which ultimately benefits the whole society (enlightened self-interest).

Bumps in the road? The free market will self-correct.

Policy? Embrace free-market capitalism. Do nothing, leave it alone (*laissez-faire*).

Free-market capitalism uses *laissez-faire* policies to bring about economic well-being:

- What to produce?  
Firms make products that people want.  
("Allocative efficiency")

- How to produce?  
Firms make the profit-maximizing amount of products using the fewest resources.  
("Productive efficiency")
- For whom to produce?  
Firms' products go to those who want them most.  
("Distributive efficiency")

Conservative idea about the roles of government:

- Ensure national security
- Protect private property
- Create infrastructure

Neoclassical Theory, 1880s: Addition of mathematical and graphical modeling.

Marginal Analysis: The additional benefits versus the additional costs of doing something.

### Radical Theory

Karl Marx, *Capital, Volume I*, 1867

Critique of capitalism in two parts.

Part I: Workplace Exploitation

Did you get paid the value of what you contributed to in your first job?

According to Marx, capitalism is a system of theft.

Part II: Capitalist Competition

In capitalism, owners must choose profit over people to survive. Owners are not necessarily bad people; they are people stuck in a bad system.

*Capital, Volume 1* critiques the economic system of capitalism, but it doesn't offer an alternative.

*The Communist Manifesto* is a pamphlet that Marx wrote with Engels in 1848. It outlines ideas about communal ownership of resources, but they never intended it to be a detailed blueprint for a new economic system.

1917: The Russian Revolution led to the creation of the Soviet Union

- *The Communist Manifesto* inspired the Russian Revolution.
- But the Soviet Union instituted state-ownership of resources instead of worker-ownership of resources.
- Once called communism, that economic system is considered by some to be state capitalism.

Some say the collapse of the Soviet Union in 1991 made Marxism irrelevant. Radicals disagree. They say his critique of capitalism is more relevant than ever. Modern radicals reject capitalism and embrace democratic socialism.

Embrace Democratic Socialism in two parts.

#### Part I: Workplace Justice

Firms become worker-owned and a portion of their profits are used to fund everyone's well-being, including health care, universal basic income, pensions, higher education, day care, and more.

#### Part II: Coordination Among Competitors

In democratic socialism, firms compete in markets, but since worker-owners live in the communities where they work, they are motivated to coordinate with their competitors to make decisions that benefit not just the bottom line but also their own neighborhoods, states, countries, and planet.

They recognize that cooperation is a win-win. Fueled by the drive for well-being, worker-owned firms put people and the planet before profit.

Worker-owners are not necessarily good people; they are people living in a good system.

According to radicals, worker ownership is inherently self-interested.

Bumps in the road? A commitment to people over profits leads to immediate and humane interventions.

Policy? Reject capitalism and embrace democratic socialism.

Democratic socialism puts the welfare of people before profits to bring about economic well-being:

- What to produce?  
Firms make what people want and need.
- How to produce?  
Firms anchor communities and produce sustainably.
- For whom to produce?  
Firms' products go to worker-owners, firms, and the community.

## Liberal Theory

John Maynard Keynes, *The General Theory*, 1936

1929: The U.S. stock market crash sent the economy into a tailspin that becomes the Great Depression.

Liberal Solutions

Reject laissez-faire policies. Any time the economy falters, the government should step in to stabilize the economy. Liberals believe government intervention makes capitalism work better for everyone

Government + Capitalism

1. Creates Stability and Equity

**Stability:** Use government to get money in people's pockets. Once people are able to demand goods and services, firms will hire workers to supply those products, and the economy will recover.

**Equity:** Use government to give people what they need to succeed. (This is subtly different from equality, which is giving all people the same things.)

Examples:

- Stimulus payments
- Jobs and job retraining programs
- Education and health care assistance
- Food and housing subsidies

## 2. Ensures Transparency with Accountability

Examples:

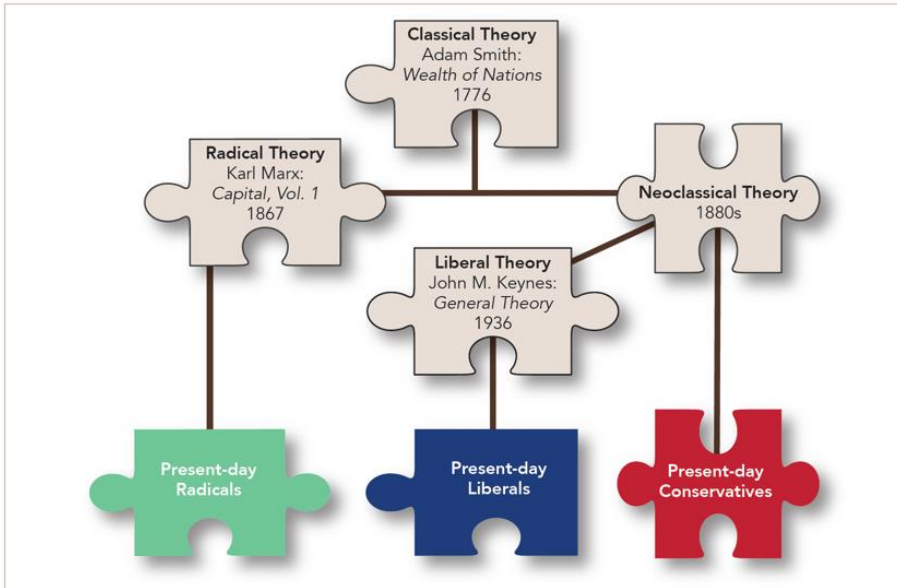
- Antitrust legislation
- Workplace safety standards
- Environmental laws
- Trade protections

According to liberals, a public-private partnership between firms and government benefits the whole society.

Bumps in the road? Use the government to stabilize the economy.

Policy? Embrace fair-market capitalism (also called the *helpful hand of government*).

## The Big Picture of Economic Thought



## The Roles of Government from Three Perspectives



### **Conservatives, Liberals, and Radicals**

National Security  
Property Protection  
Infrastructure



### **Liberals and Radicals**

Transparency with Accountability  
Stability  
Equity



### **Radicals**

Manage Public Ownership  
Community Councils  
Universal Benefits

# VOTE Perspectives

## CONSERVATIVE

WHO
Adam Smith <i>The Wealth of Nations</i>
WHEN
18th century
WHAT
Firms are privately owned and guided by price signals (the invisible hand)
WHY
Because when the economy is free from interference, we have the right incentives to create prosperity
HOW
Embrace <b>free-market capitalism</b>
WHERE
In a nation with <b>liberty</b> so all can flourish with unfettered opportunities
THESE IDEAS ARE BROADLY SHARED BY
republicans • conservatives classical/neoclassical theorists Republican Party • GOP • Tea Party libertarians • right • far right supply-side • Austrian school • Chicago school Right to Work movement • deregulators

## RADICAL

WHO
Karl Marx <i>Capital, Volume 1</i>
WHEN
19th century
WHAT
Firms are worker-owned and guided by the pressure for good (the invisible synergy)
WHY
Because when the economy values people over profits, we act in everyone's best interest to create prosperity
HOW
Embrace <b>democratic socialism</b>
WHERE
In a nation with <b>freedom</b> so all can flourish with meaningful opportunities
THESE IDEAS ARE BROADLY SHARED BY
democratic socialists • radicals Marxist theorists Green Party • Communist Party socialists • left • far left dependency/world-systems theorists labor rights activists • Occupy movement

## LIBERAL

WHO
John Maynard Keynes <i>The General Theory</i>
WHEN
20th century
WHAT
Firms are privately owned and guided by price signals and government (the helpful hand)
WHY
Because when the economy is stable and equitable, we have the ingenuity and accountability to create prosperity
HOW
Embrace <b>fair-market capitalism</b>
WHERE
In a nation with <b>fairness</b> so all can flourish with equal opportunities
THESE IDEAS ARE BROADLY SHARED BY
democrats • liberals Keynesian theorists Democratic Party progressives • center • center left institutionalist theorists • social economists labor union organizers and members

The name *Voices On The Economy* has a double meaning: to hear the voices of the great economic thinkers of our past so I can find my own voice on economic issues.