

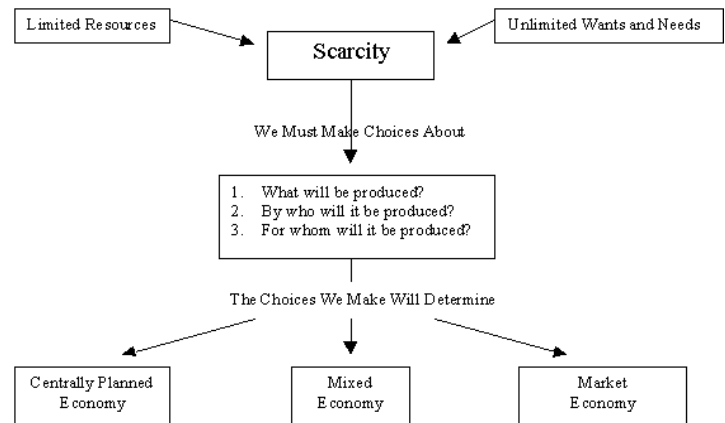
# Social Studies 30-1

## Unit Five: Liberalism and Economics

### Key Question: How has economic liberalism evolved over time?

#### LECTURE 5.2: WHAT IS ECONOMIC CLASSICAL LIBERALISM?

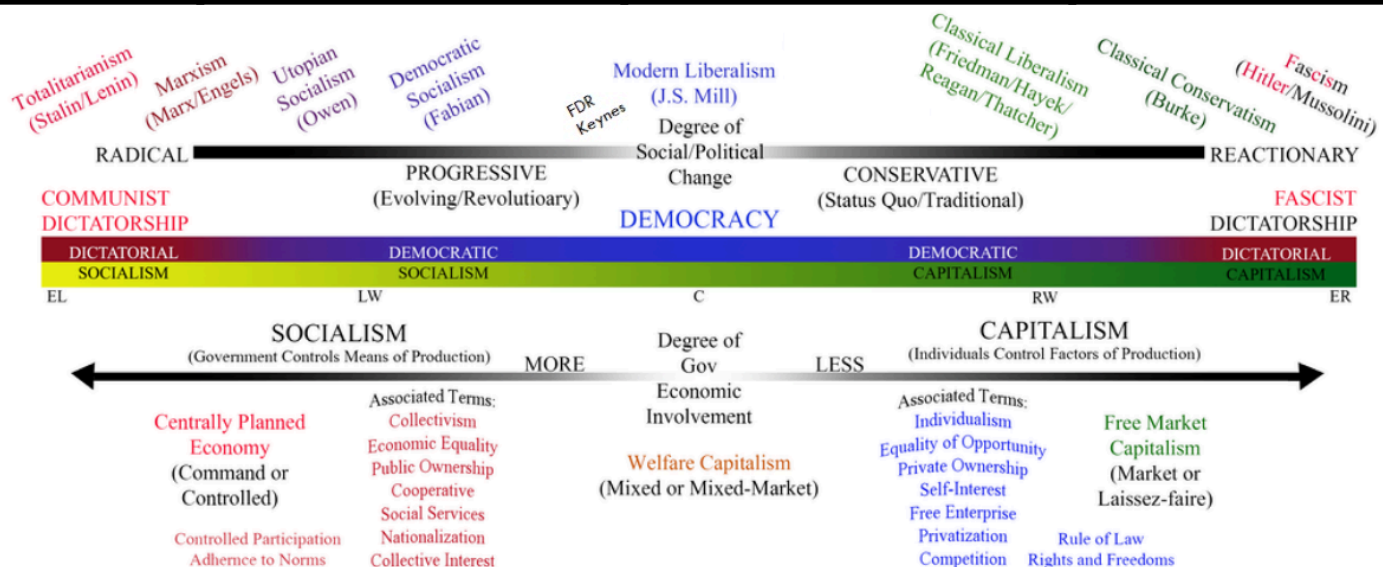
**Economics** is the study of how people choose to use resources. And because our resources are most often limited and our wants unlimited, choices must be made. **Scarcity** is the basic problem which affects every economy and every individual in the world. It is caused by the fact that there are not enough resources to meet essential needs and every individual's unlimited desires. Dealing with **scarcity** means that every economy must make decisions about how resources should be used. How these basic economic questions are answered determines which sort of economic system will be followed.



The diagram below shows how scarcity is created and how the answers to the three basic economic questions lead to philosophically different economic systems.

The chart below shows how each theoretical economic system answers these questions.

	Centrally Planned (collectivism)	Mixed (reluctant collectivism)	Free Market (individualism)
What will be produced?	Essentials (needs)	Essentials/Wants	What the people want (demand)
By whom will it be produced?	Government	Government/ Entrepreneurs	Entrepreneurs (supply)
For whom will it be produced?	Citizens	Citizens/People who can afford it	People who can afford it



Classical liberalism is a political and economic ideology that is quite individualist. In short, it is all about liberation; liberation from oppression, whether it be an absolute monarch or a mercantilist government.

It is a political belief in which primary emphasis is placed on securing the freedom of the individual by limiting the power of the state. In its economic form, it advocates a respect for private property and free markets. Don't forget your six principles of liberalism!!!

**Private property:** individual ownership of the factors of production. Here is how it works.

**Rule of law:** every individual is equal and all individuals are subject to the law.

**Individual rights and freedoms:** freedom of religion, freedom of association, and the right to life, liberty, and the security of the person.

**Competition:** provides the incentive and motivation to work harder.

**Economic freedom:** the freedom to buy and sell whatever you want. Land, labor, and capital is controlled by the individual, not the government.

**Self-interest:** focus on “ME”, meaning yourself.


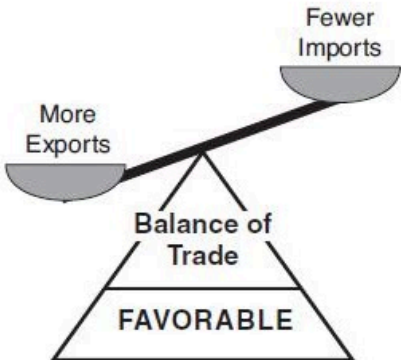
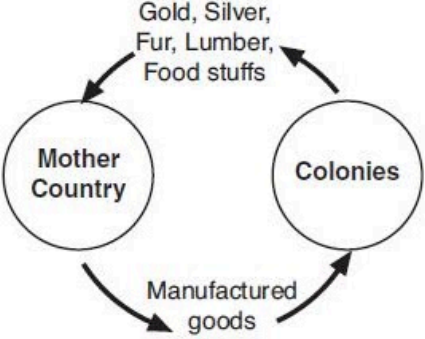
To make our values and principles of classical liberal economic thought more complete, add:

- **s**upply and demand: an agreement between producers and consumers of the good, determines price or equilibrium.
- **p**rofit motive: the desire to make money; incentive and reward in participating in a free market economy.
- **e**fficiency: peak level of performance; able to accomplish something with the least amount of waste
- **e**conomic growth: general prosperity
- **d**iscipline: all of the above limits the riskiness of producers and consumers, something government's cannot do.
- **c**onsumer **s**overeignty: choice; consumers can use their spending power as 'votes' for goods.



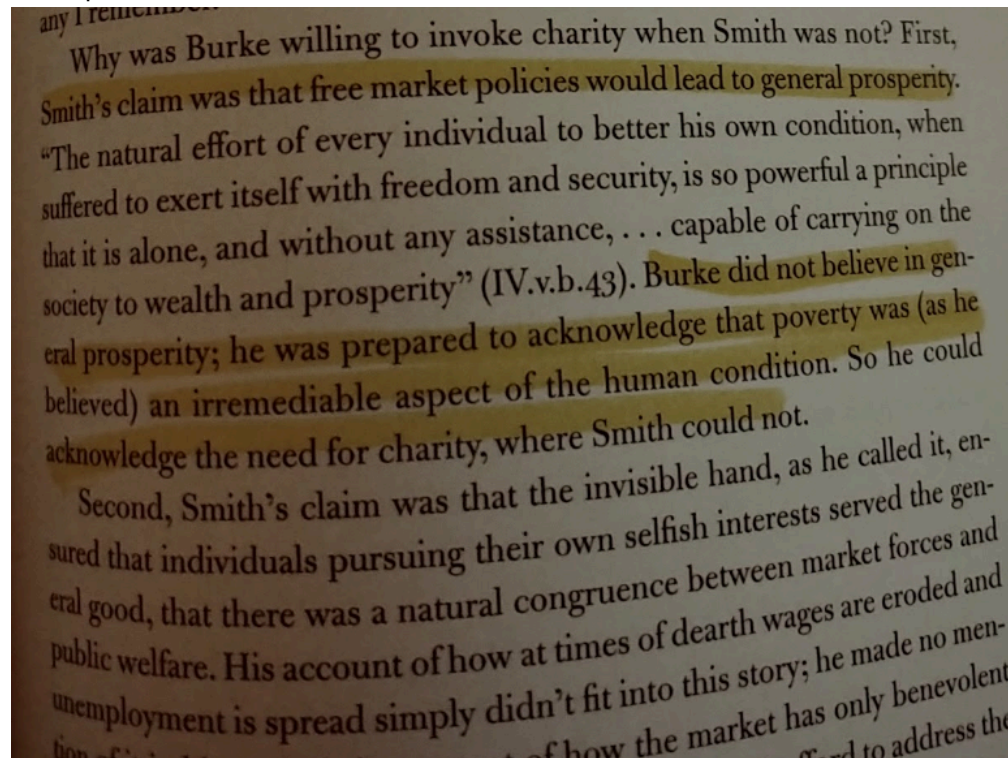
# SPEEDS

# WHO WAS RESPONSIBLE FOR ECONOMIC CLASSICAL LIBERALISM?

The Thinker	The points to know...
<p><b>The Physiocrats and Francois Quesnay (leader)</b></p>	<p>-were critics of <b>mercantilism</b> (the economic theory that trade generates wealth and is stimulated by the accumulation of profitable balances, which a government should encourage by means of protectionism).</p> <p style="text-align: center;"><b>A European View</b></p> <hr/> <div style="display: flex; justify-content: space-around; align-items: center;">    </div> <p>-According to the Physiocrats (and classical liberals), mercantilism's protectionism stifled economic freedom and competition, and severely limited the wealth of all nations.</p> <p>-criticized government control and regulation because it hindered the flow of income and goods throughout the economy.</p> <p>-Called for free trade and the end of government restrictions on economic activity</p> <p>-Popularized the term, <i>laissez-faire</i> or hands off.</p>
<p><b>Adam Smith</b> <b>An Inquiry into the Nature and Causes of the Wealth of Nations (1776)</b></p>	<p>-often regarded as the father of modern economics</p> <p>-Like the Physiocrats, he was against mercantilism. For Adam Smith, mercantilism was the enemy of human liberty.</p> <p>-each individual strives to become wealthy "intending only his own gain" but to this end he must exchange what he owns or produces with others who sufficiently value what he has to offer; in this way, by division of labour and a free market, public interest is advanced.</p> <p>-individuals should be allowed to pursue their own private economic interests as much as possible and so long as they do not violate basic principles of justice. The <b>invisible hand</b> of the market - although everyone is acting in their own self-interest, they are led to achieve the good of all as if by an invisible hand of economic forces. Therefore, outside interference will inevitably lead to disaster. This became known as <i>laissez-faire</i> economic policy. The government should take a "hands off" approach and let the producers and sellers (the market) decide economic issues. The invisible hand is more beneficial and rational than allowing politicians and rulers, who are fallible, to make such economic decisions.</p> <p>-The self-interested pursuit of wealth may not be individually satisfying but leads to an aggregate increase in wealth that is in the best interests of a nation. The free market produces the best possible outcomes for society as a whole. <b>Selfish people grow the economy, and so benefit everyone.</b></p> <p>"It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest."</p> <p>-By entering and competing in the great interactive dynamic network of modern society, we become fully free and human. Capitalism offers the conditions under which we forge our own happiness: independence, material affluence, and cooperation with others.</p>

-any form of government intervention, other than for national defense, providing a justice system that protects individual liberties, particularly property, will lead to unintended consequences. All modern famines were government made. A benevolent nature, under conditions of free trade, supply adequate subsistence.

-who would ultimately benefit from this economic system? According to Smith, there would be general prosperity and a general good for public welfare.



-one criticism of Smith is his failure to recognize the possibility of starvation in the midst of plenty and his dogmatic attachment ("wedded to a system") to the principle of free trade and his inability to empathize with suffering.

-Smith worried about how division of labour and specialization would lead to a mass of ignorant, culturally degraded citizens. He worried these individuals would become easy prey to demagogues. Thus, an education system must be created that would counteract the negatives of division of labour. This education system should be available to as many people as possible.

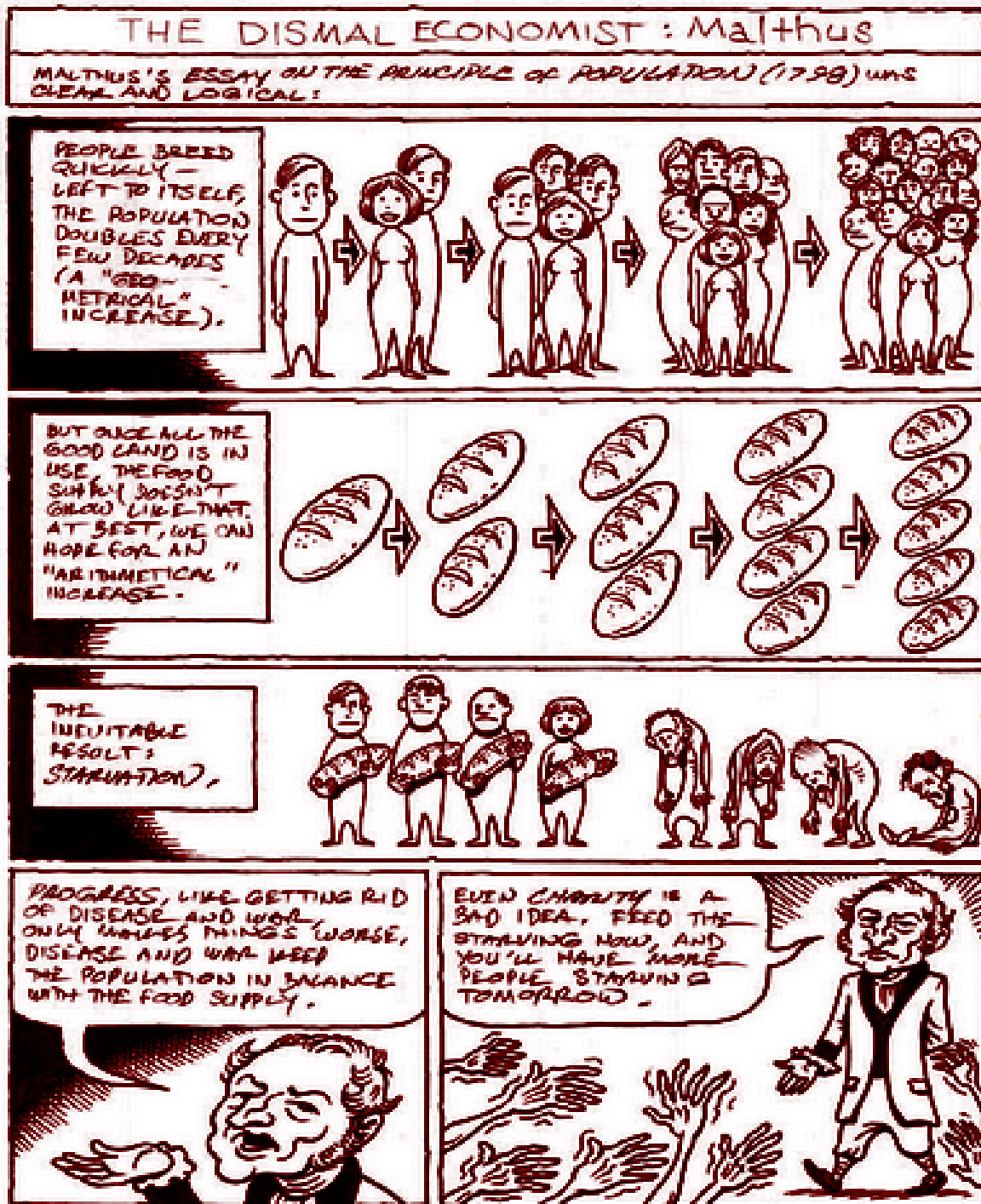
**Thomas  
Malthus**

**Essay on  
the  
Principle of  
Population  
(1798)**

-Malthus disagreed with Smith's optimism...

According to Malthus, humanity is largely destined to live in poverty because an increase in productive capacity results in an increase in population.

-poverty is inevitable and population growth should be checked by famine, war, and disease. If you don't have independent wealth, and you can't sell your labour on the market at the level at which you can survive, then you have no right being here – go to the workhouse prison or go somewhere else (a colony like North America or Australia). This was essentially a law of nature and that is the way it has to be. In short, it's a form of birth control.



- Thomas Malthus' argument is that people are poor because they lack self-discipline. This argument continues to frame welfare policy in the USA today. Welfare policy in the USA is shaped by the assumption that welfare recipients can pull themselves out of poverty just by exercising self-discipline and working hard, not from a problem of inadequate income.



David  
Ricardo

-agreed with Malthus and stated if you interfere with this law of nature, you will do more harm than good.

-Ricardo's theory, which eventually became known as the **'Iron Law of Wages'**, implies that efforts to improve wages, such as labor laws or welfare programs, are futile because wages will always return to subsistence levels. This view can be used to justify low wages and opposition to social policies. In short, high wages were pointless because they encouraged the workers to have more children thus cancelling the purpose of high wages. He believed the wages of labourers should be kept at the lowest possible level because their high rate of reproduction ensured a surplus supply of labour. His theories made the industrialists of Britain extremely happy because they were therefore able to use the Ricardian theory of wage control to refute the calls of the reformers. His ideas about wage control for the average worker were used and abused by the industrial capitalists of Britain, known as cotton lords, who wanted to produce as much profit as possible at the least possible cost. He also advocated a restriction of the Poor Laws. These had originally been passed by the British Parliament in the early nineteenth century to bring relief to the poorer classes in British society. The industrialists of Britain were therefore able to use the Ricardian theory of wage control to refute the calls of the reformers.

-Because of Malthus' predictions, Ricardo advocated for international free trade. He believed that increasing the extent of **international trade** would increase the sum of different commodities available to consumers, and therefore the sum of available enjoyments. He argued that the economies of nation-states would be most effectively (and efficiently) driven and organised by the "invisible hand" of a free market.

-Ricardo suggested, not only is it in the best interests of any pair of trading nation-states for the doctrine of free trade to be adopted between them, it is also in the best interests of the world for the doctrine to be adopted globally. Through the implementation of global free trade, Ricardo envisaged that the world's nation-states would be "bound together" by their common economic interests, thus becoming effectively interdependent .

In arguing for free trade, Ricardo formulated the idea of comparative costs, today called **COMPARATIVE ADVANTAGE**—a very subtle idea that is the main basis for most economists' belief in free trade today. The idea is this: a country that trades for products it can get at lower cost from another country is better off than if it had made the products at home.

For example, in Portugal it is possible to produce both wine and cloth with less labor than it would take to produce the same quantities in England. However the relative costs of producing those two goods are different in the two countries. In England it is very hard to produce wine, and only moderately difficult to produce cloth. In Portugal both are easy to produce. Therefore, while it is cheaper to produce cloth in Portugal than England, it is cheaper still for Portugal to produce excess wine, and trade that for English cloth. Conversely England benefits from this trade because its cost for producing cloth has not changed but it can now get wine at a lower price, closer to the cost of cloth. The conclusion drawn is that each country can gain by **specializing** in the good where it has a comparative advantage, and trading that good for the other (**reciprocity**).= mutual exchange = general prosperity

<http://www.econlib.org/library/Enc/bios/Ricardo.html>

