

Capitalist Economy

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. We address ourselves, not to their humanity but to their self-love.

Adam Smith, *The Wealth of Nations*, 1776.

Adam Smith was the 'forefather' of capitalist thinking. His assumption was that humans were self serving by nature but that as long as every individual were to seek the fulfillment of her/his own self interest, the material needs of the whole society would be met. Therefore, there was no need for the government or any outside force to interfere or try to regulate the market. Privately held property and making profit would be the norm and help provide incentive.

Society would only benefit, Smith believed , if there were no monopolies so that competition could operate unrestricted. So, for instance, if one baker in your neighborhood decided to charge ten dollars for a loaf of bread, he would not get away with it as long as there were another baker willing to sell his bread for a more reasonable price. You, acting in your own self interest would go to the cheaper baker (competition). If however, one person owned all of the bakeries in your neighborhood (monopoly) and he raised the price, you would have no choice and would have to pay or go without bread.

This tendency for competition to keep the prices of products in line with the needs of consumers Adam Smith called the "invisible hand." The invisible hand of the market, said Adam Smith, will allow the self interest, of each individual to provide for the overall interest of society.

Adam Smith also described the idea of division of labor. Efficiency is important in a capitalist economy and Adam Smith observed one day in a pin factory that pins could be produced more efficiently if "one man draws out the wire, another straightens it, a third cuts it, a fourth points it . . ." and so on. More pins could be produced this way than if one person made the whole pin each time. This was the birth of the modern day industry.

Discussion Questions:

According to Adam Smith, what is the main thing that individuals should be concerned about in order to make society run smoothly?

Do you agree that people act mainly in their own interest? Do you think this is human nature?

What are the main characteristics of a capitalist economy?

How do you think Adam Smith would view the large corporations of the modern world?

Socialist Economy

... communists can sum up their theory in the pithy phrase:

the abolition of private property.

Karl Marx, *Manifesto of the Communist Party*, 1848.

Karl Marx wrote about Communism 75 years after Adam Smith put forward his theories. He had observed capitalist industries in Europe and had concluded that they promoted a great deal of inequality. It was the person who owned the pin factory (to take Adam Smith's example) who gained from the increase of efficiency, not the people who actually made the pins, and Marx felt that this was no better than the unfair feudal system of landlords and serfs that capitalism was supposed to have replaced. Marx believed that if all property were owned in common, and each member of society had an equal share, that it would prevent the division of society into two classes: those who produce and those who gain from the sale of those products.

Because he knew that the rich would be unwilling to give up their privileges and their power, Marx theorized that a transition from a capitalist economy to a communist economy where there would be no private ownership might necessitate a violent revolution. His idea was that if the workers (the proletariat) organized they would be able to overthrow those in power and then they could set up a provisional government that would facilitate a gradual move to communism.

Both Adam Smith and Karl Marx believed that the purpose of the economy is to provide for the material needs of society and they both assumed that for the most part humans acted in their own self interest. Adam Smith's system protected an individual's *freedom*, and said that the common good could be attained by all individuals seeking their personal interest. Karl Marx's system provided for *equality* among individuals and relied on a strong central government to provide for the common good, at least during the transition to the ideal communist society.

Discussion Questions:

What was Marx reacting to when he was creating his idea for the communist society?

List the main characteristics of a socialist economy.

What do you think might be sacrificed in the economy of Marx in order to achieve more equality?

Do you think it is possible to create a more equal society where individuals still have a great deal of freedom and self-determination?

A Day in the Life . . .

Henry David Thoreau once said that economics comes down to how people spend their time.

1.) Imagine that you are a person in one of the economies described above (other than capitalist). On a separate sheet of paper, write two journal entries as this person.

In the first one, describe a typical day: what is your daily routine, how do you secure your basic needs, what is your attitude toward the work you are doing, what are you thinking about, who do you spend time with, etc.

Then in your second journal entry write about another day, a special occasion. Describe where you go, what you do on a special occasion as a person in this kind of economy. Think about the economy's assumptions about nature, about work, about the meaning of life. Each Entry should be one half page.

2.) Next, describe how you spend *your* time typically and on a special occasion. (one half page)

3.) Do these two differ in any way? How?

4.) Imagine yourself in a different economic system and repeat this exercise.