



English, Economics, Politics, and Philosophy

Unit 1 Evolution of Economics

Lesson 1.6: Should We Plan? (Part I)

Pertinent Concepts

Infrastructure construction i.e., schools, national defence

- Laissez-fair taxation

- Government Planning and John Maynard Keynes

Barriers of Trade: Quota, Embargo, Tariff

- Problem of Knowledge

- Friedrich Hayek

Learning Goals:

- I will understand the literal meaning for laissez-fair

- I will understand how government plans economic affairs

Success Criteria:

- I can discuss whether the government should interfere the market.

Creative Destruction: for the new thing to thrive the old has to be destroyed

MINDS ON

Question: During our last tutorial, we learned about the birth of innovations and the decay of the established technology. Do you recall that whilst we were watching a video about Schumpeter, one interesting question was posited: island A and island B, which one will perform better in its economy? (island A has minimum market barriers

(legislative) while island B has many market barriers (legislative)) Why?

Also, island A has an ongoing monopoly, whereas island B does not

Market Barriers

Refers to the degree to which the formation of of enterprise (company) to economic sectors is free from bureaucracy



market barrier=government planing(B); no existing monopoly
vs free enterprise (A) = laissez-fair; existing monopoly

competition is encouraged in island A

it is discouraged in island B

Island B doesn't let people open their own business (entrepreneur) so innovation and invention are disappeared. If there is no innovation and invention we will have to live a boring life; also, if there is a new crisis (problem) requiring new method, the shortage of innovation and invention will not be adequate (enough) for the formation of such new method.

However on island A, safety issues should be concerned. For example, bad people can easily register a company on island A. They might do bad things with the money or they might supply bad product.

I. **Laissez-fair**

Laissez-faire (let-do) is a type of economic system in which let it be transactions between private groups of people are free from any form of economic interventionism (such as subsidies or regulations). As a system of thought, laissez-faire rests on the following axioms: "the individual is the basic unit in society, belief i.e., the standard of measurement in social calculus; the individual has a natural right to freedom; and the physical order

of nature is a harmonious and self-regulating system." [1] The original phrase was **laissez faire, laissez passer**, with the second part meaning "let (things) pass". It is generally attributed to Vincent de Gournay.

Recall the Smith's economic theory: in order for the market to function in its maximum efficiency, the **Invisible Hand** has to **allocative efficiency** guide individuals in the market but not the government. For

Smith, it is because **people are profit-motive**. We are **motivated** **incentivized** not by the mercy for other but by the **interest of our own**, in which if the government interfere the market—through **taxation**, subsidy, or quota, the **gain to society** will be **and our incentive (motivation) will be deteriorated**.
=gov't investment ~ undermined.
Price = cost + profit now if the government impose tax
Price = cost + tax + profit (profit (-) price (+))

We can also refer back to Schumpeter and Wieser. For

Schumpeter if the government '**stabilizes**' whenever a economic **subsidy (i.e., give money)** downturn occurs, the **innovation will be suppressed**. For **Wieser**, **values are subjective i.e., personal!!** the **government** will never be able to acquire the **knowledge** of

is taxation fair?

Homework Jan 5th write down your ideas!!

the dispersed ‘**imputed value**’ of individuals. This is because

Wieser thought value as subjective. **The opportunity cost of A**

person is different from the opportunity cost of B person.

Question: Do you think the government should do any planning then?

if you want to write about the relationships between government, society, and people(or individual) you can also do that

the gov't should provide (using the tax money)

national defence

health care

bank regulation

education

google: “human capital”

the gov't should not

prevent people entering the market

natural rights of people (what our freedom guarantees us)

liberty = freedom = realm where there is an absence of coercion

Hayek: The Constitution of Liberty

- 1929 - 1939 the great depression
- Smithian Crisis (problem)
- II. Government Planning
1. bank bankruptcy
 2. people's money is all gone
 3. all enterprises are bankrupted as well
 4. no people has jobs

The government, although shall be prevented from interfering
do you get interest from the bank?
in all sectors in the economy, has its significance in the

market nonetheless.

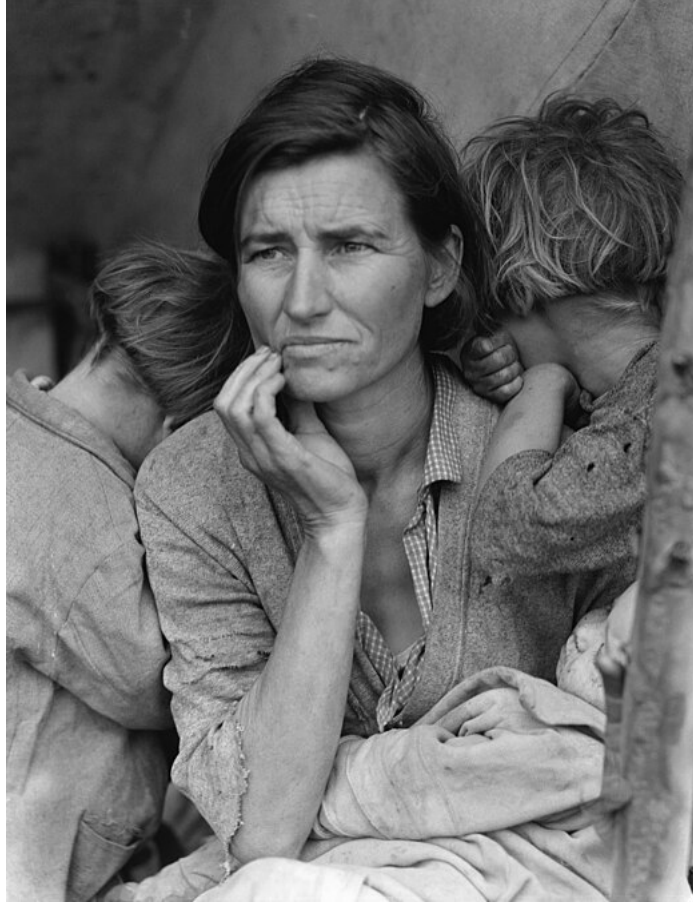
1.1 what is a bank

1.2 a bank is an institution that keeps your money

In 1930s (1929-1939), the US economy suffered from
Smithian CRISIS. This period was historically called the great
depression. It was a period of economic depression that
became evident after a major fall in stock prices in the United
States.[1] The economic contagion began around September
1929 and led to the Wall Street stock market crash of 24
October (Black Thursday). It was the longest, deepest, and
most widespread depression of the 20th century. This, for
nowadays economists, was attributable to the failure of

banking regulation (i.e., the government did not plan enough
Maynard Keynes - macroeconomics
or regulate the banking industry enough).

for example if i save 10\$ in the bank the bank will invest my 10\$
other people also save money
when you wanna cash out, and if the government loses the money,
the government will give you the money from other people



We will delve into the CRISIS further when we learn about the other economist, **John Maynard Keynes**

Question: What do we see in the photo taken during the great depression.

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