FROM JOHN LOCKE TO FRIEDRICH VON HAYEK: HISTORY OF LIBERAL ECONOMIC THOUGHT

Tracing key ideas shaping modern economic philosophies

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HISTORY OF LIBERAL ECONOMIC THOUGHT – TRACING THREE CENTURIES

Foundations of Liberalism

John Locke laid the groundwork for liberal economic thought emphasizing property rights and individual freedom.

Evolution of Economic Thought

Over centuries, key thinkers expanded ideas on spontaneous order and market freedom in liberalism.

Influence of Friedrich von Hayek

Hayek's theories reinforced the importance of individual liberty and limited government intervention in economies.

Contemporary Impact

Liberal principles continue to shape debates on freedom, markets, and government roles in modern economies.

LOCKE & HUME: PRECURSORS

LOCKE: LABOUR CREATES PROPERTY; PROPERTY RIGHTS ENABLE ENTERPRISE

Labour as Source of Ownership

Locke's theory states labor is the foundation of property ownership and individual rights.

Property Rights Foster Enterprise

Property rights provide the moral and legal basis necessary for economic development and enterprise.

Spontaneous Social Order

Hume introduced spontaneous order, where social systems emerge organically without central control.

Market Balance via Price–Specie Flow

Hume's price–specie flow mechanism shows natural market balance through trade and currency flows.

HUME: CONTRIBUTIONS TO ECONOMICS

Evolution of Institutions

Economic institutions arise gradually through collective experience rather than deliberate design.

Price–Specie Flow Mechanism

Trade imbalances self-correct as gold flows between countries, adjusting domestic prices.

Interest Rate Dynamics

Interest rates depend on the supply and demand for loanable funds, not on the quantity of money alone.

Mutual Gains from Trade

International commerce enriches all participating nations instead of operating as a zero-sum competition.

ADAM SMITH

MORAL PHILOSOPHY, DIVISION OF LABOUR, INVISIBLE HAND

Moral Philosophy and Empathy

Smith's moral philosophy emphasizes empathy and ethical behavior as foundations of social harmony and trust.

Division of Labour Benefits

The division of labor improves productivity and efficiency by specializing tasks among workers.

Invisible Hand Metaphor

The invisible hand shows how individual self-interest guided by market prices leads to beneficial social outcomes.

Market Competition and Regulation

Smith advocated competitive markets, warned against monopolies, and supported limited government intervention.

TOCQUEVILLE

EQUALITY, ENTREPRENEURSHIP, TYRANNY OF MAJORITY

Equality and Entrepreneurial Spirit

Equality can foster entrepreneurship and innovation by providing opportunities and unleashing potential.

Tyranny of Majority

Democratic majorities can suppress minority rights, risking individual freedoms and diversity.

Soft Despotism and Dependence

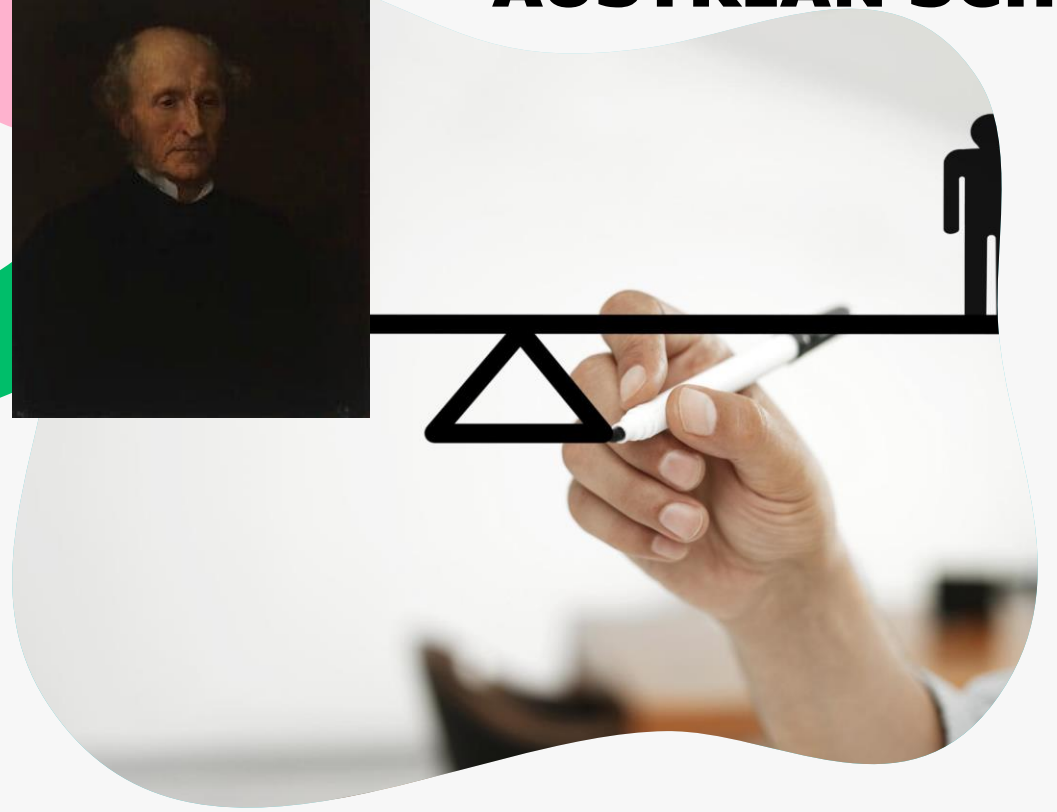
Soft despotism subtly controls citizens by fostering state dependence, reducing initiative and responsibility.

Balancing Equality and Liberty

Effective democracy requires balancing equality with liberty to protect freedoms and encourage responsibility.

19TH CENTURY DEVELOPMENTS

MILL: HARM PRINCIPLE; AUSTRIAN SCHOOL



Mill's Harm Principle

The harm principle advocates freedom of individual actions unless they harm others, highlighting personal autonomy.

Austrian School Economics

The Austrian school emphasizes subjective value and marginal utility, focusing on individual market decisions.

Foundations of Modern Economics

Austrian economists challenged classical models, promoting dynamic and decentralized market processes.

KARL POPPER

CRITIQUE OF HISTORICISM; PIECEMEAL ENGINEERING

Rejection of Historicism

Popper rejects the notion of predetermined historical laws, emphasizing unpredictability in social change.

Piecemeal Engineering Approach

This pragmatic approach promotes incremental reform and empirical testing for social and economic policies.

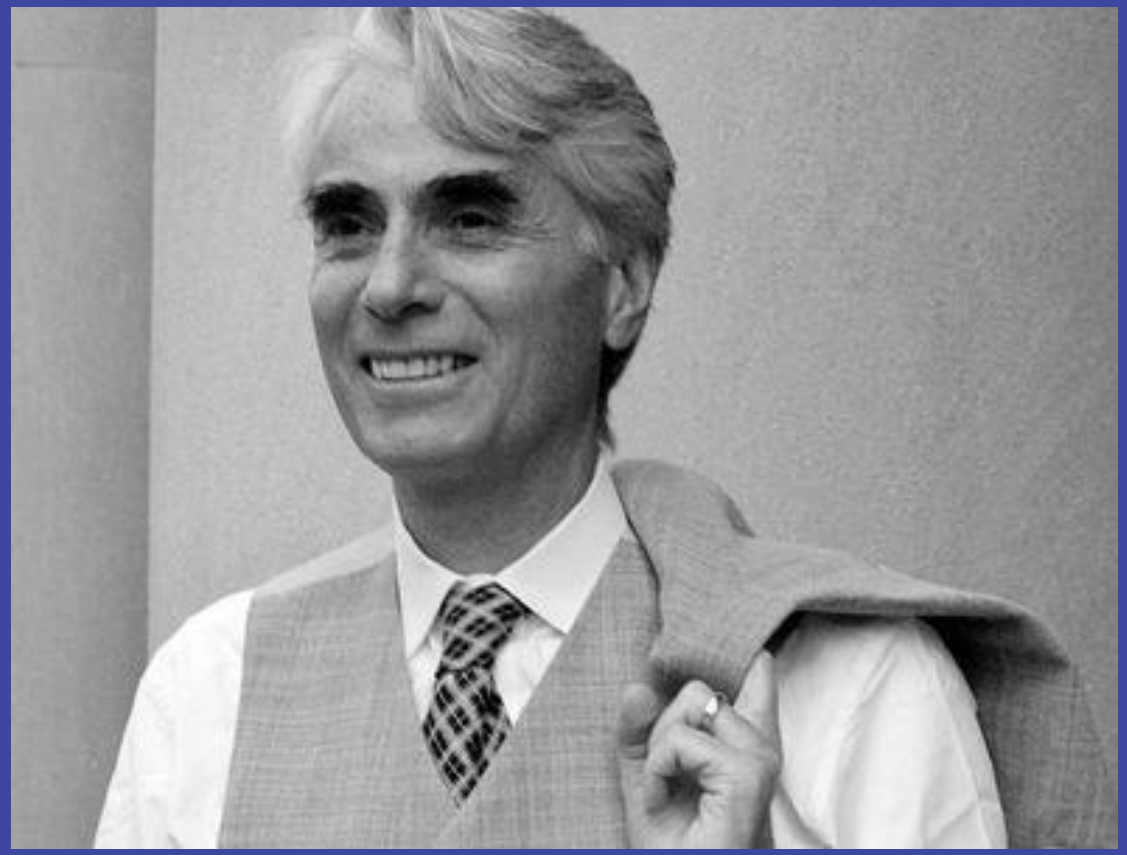
Falsifiability Principle

Policies and theories must be testable and subject to revision based on evidence and critique.

Open Societies and Adaptability

Popper advocates humility and adaptability, encouraging open societies with ongoing critical debate.

TWENTIETH-CENTURY DEVELOPMENTS: MISES & NOZICK



MISES: CALCULATION PROBLEM; NOZICK: MINIMAL STATE

Economic Calculation Problem

Mises argued economic calculation is impossible without market prices, exposing central planning's limitations.

Role of Entrepreneurship

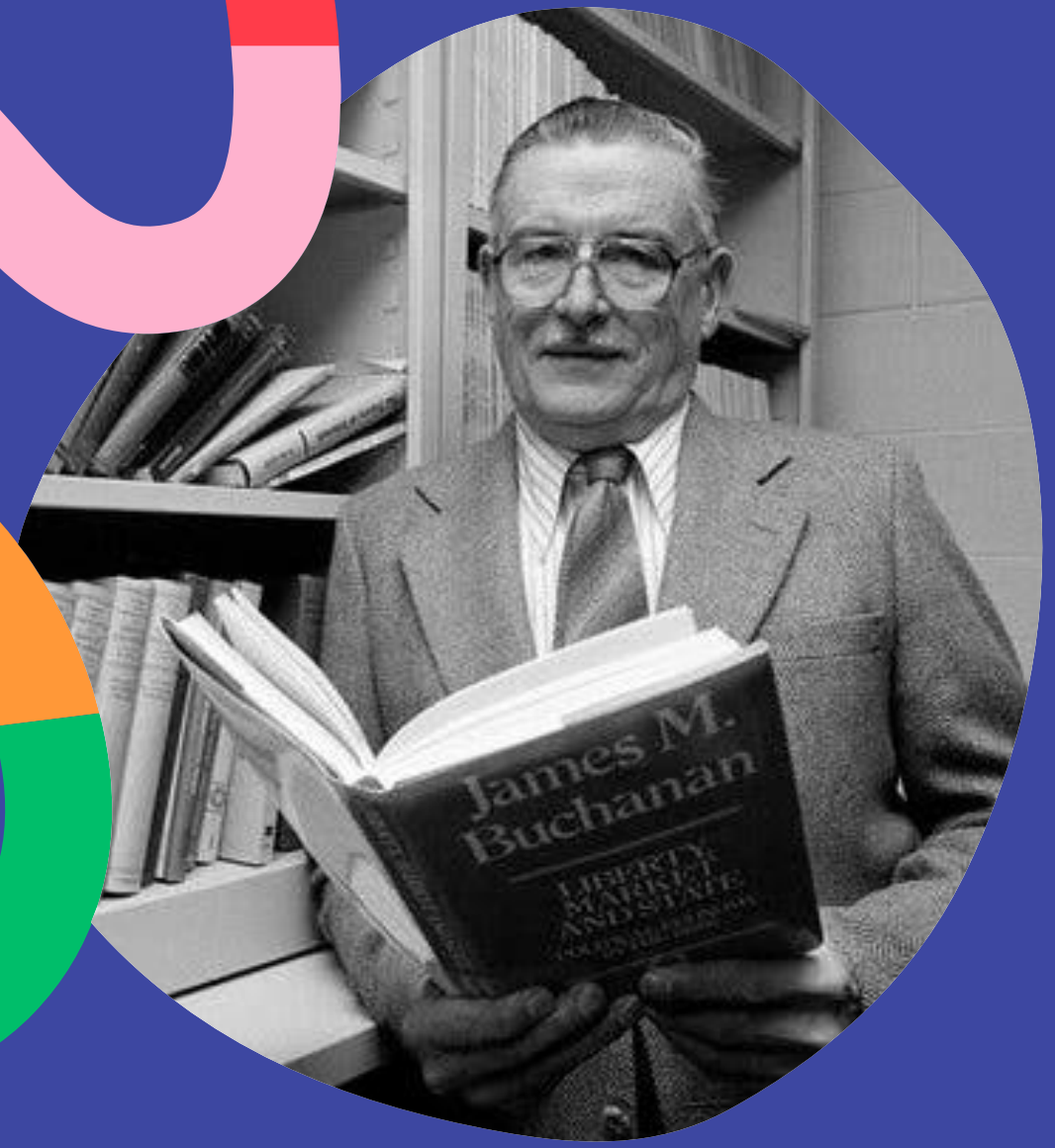
Entrepreneurship plays a crucial role in coordinating economic activity within a market-based system.

Minimal State Philosophy

Nozick advocates a minimal state focused on individual rights and voluntary exchanges, rejecting redistributive policies.

Protection of Individual Freedoms

Nozick emphasizes liberty's moral primacy, opposing coercive government interventions.



JAMES BUCHANAN

PUBLIC CHOICE; RENT-SEEKING; CONSTITUTIONAL CONSTRAINTS

Public Choice Theory

Public choice theory analyzes political decisions using economic principles, focusing o
self-interest and incentives driving government actions.

Rent-Seeking Problem

Rent-seeking involves individuals or groups seeking economic benefits via political
influence instead of productive work.

Constitutional Constraints

Constitutional constraints limit government power to align incentives with public w
and prevent abuse.

Institutional Checks Importance

Buchanan emphasizes institutional checks to prevent unchecked government intervention
in economic affairs.

RONALD COASE

TRANSACTION COSTS; PROPERTY RIGHTS

Theory of the Firm

Coase's theory explains how firms reduce transaction costs by managing exchanges internally.

Property Rights Impact

Clear property rights improve economic efficiency and resource allocation by setting legal boundaries.

Institutional Role

Institutions support markets by reducing conflicts and facilitating voluntary exchanges.

MILTON FRIEDMAN

ECONOMIC FREEDOM; MONETARISM; POLICY FAILURES

Economic and Political Freedom

Friedman linked economic freedom with political freedom, highlighting the role of free markets in democracy and liberty.

Monetarist Theory

Emphasized controlling the money supply to curb inflation and prevent economic instability.

Critique of Government Interventions

Argued that government policies often produce unintended consequences and fail to meet their goals.

Advocacy for Limited Government

He championed limited government, free enterprise, and sound monetary policies shaping economic thought.

FRIEDRICH VON HAYEK

DISPERSED KNOWLEDGE; PRICE SYSTEM; SPONTANEOUS ORDER

Dispersed Knowledge Theory

Individuals hold unique knowledge that cannot be centrally collected or fully shared in one place.

Price System Coordination

The price system transmits information through market signals, enabling efficient coordination of economic activities.

Spontaneous Social Order

Complex social and economic structures emerge naturally without central control or direction.

Central Planning Risks

Central planning risks individual liberty and prosperity by undermining spontaneous order and stable rules.

CONCLUSION

PRIMACY OF INDIVIDUAL; RULE OF LAW; VOLUNTARY EXCHANGE

Primacy of the Individual

Liberal economic thought emphasizes the individual's central role in society and economic decision-making.

Rule of Law

Clear laws and property rights ensure fairness and reduce transaction costs, fostering economic efficiency.

Voluntary Exchange

Voluntary exchange promotes personal freedom and economic prosperity by enabling mutually beneficial trade.

Continuous Institutional Improvement

Liberalism supports ongoing reform based on critical debate and empirical evidence to enhance institutions.