First Lecture

Capitalism: A Brief History

Definition
• “Economic” system?
• Private ownership / profit motive / wage labour

Beginnings
• 16th century: Feudal self-sufficiency
• Italy / low countries / England
• Capitalist revolution: transformative / integrative / uneven

Cosmology
• Why Europe?
• Triple revolution: scientific / political / technological

Key changes
• Work: means of production / employment / unemployment / skills / clock
• Family: from extended, to nuclear, to none
• Environment: from food to the pre-conditions of human life
• State: nation state, representation, intervention
• Globalization: transnational corporation, global ownership

Agriculture
• 1st revolution: surplus and class
• 2nd revolution: labour saving

Transportation
• Movement: humans, sea routes, land

Population
• Infant mortality / life expectancy / population size

Material standards of living
• Malthus’ curse?

Geography
• Diamond’s *Guns, Germs, and Steel*
• Regional shifts: from Asia, to the West and back to Asia

Distribution
• Rich vs. poor regions
• Income distribution: capital vs. labour
• The rise of finance

Business cycle
• Growth and instability
• Expansion, peak, recession, trough
• Employment / unemployment
• The “political business cycle”
**Inflation**
- The invisible twin of growth?
- Stagflation

**Investment**
- “Real” vs. “financial” investment
- Buy-to-build ratio

**Government**
- *Laissez faire*
- The post-war welfare-warfare state
- A neoliberal anti-government revolution?

**Capital flow**
- The globalization of ownership
- The end of the world as we know it?
FIGURE 1.1  Productivity increases in U.S. agriculture, 1830–1987  Focusing specifically on the production of wheat, this figure shows how labor productivity in U.S. agriculture has risen during the past two centuries. In the 18th century American farmers used crude wooden plows drawn by horses or oxen. They sowed seeds by hand, cultivated them with hoes, cut the wheat with sickles, and harvested their grain from the wheat using manual threshing devices called flails. Iron plows were introduced early in the 19th century, but as late as 1830 it still took about 300 hours of labor to produce 100 bushels of wheat on a five-acre farm. In the middle of the 19th century farmers began to use chemical fertilizers, and they also came to rely more and more on factory-made agricultural machinery. Over the next century agricultural productivity rose dramatically. By 1987 on a large, highly mechanized American farm, 100 bushels of wheat could be produced with only 3 hours of labor on 3 acres of land, 100 times more output per hour than could be produced in 1830.

Figure 12.1 Agricultural labor force, England, the Netherlands, and France

Figure 1.1. The spread of humans around the world.

Figure 3.1  Infant mortality rate, Sweden, 1751–1988, with smoothed median trend
Source: B. R. Mitchell (1975) and United Nations Demographic Yearbooks.

Figure 2.1  Life expectancy, England and Sweden, 1541–1985

Figure 1.3a  Trends in life expectancy over the millennia (stylized)

FIGURE 16 Capitalism and the population explosion. This figure charts the population of the world from 10,000 BC to the end of the 20th century. For most of the last 12,000 years, the total population of the world grew slowly, if at all, with periods of increase in good years followed by intervals of decline in response to climatic adversity and other calamities. There are about 20 cities in the world today whose populations exceed the entire population of the world—which was probably less than 10 million—1,000 years ago, when agriculture began displacing hunting and gathering. Population started growing rapidly in a few countries two centuries ago, but the world's population really exploded in the 20th century with the development of modern medicine and its spread throughout the world. While the number of people in the world continues to grow, the pace of growth is slowing (see insert). Demographers predict that the population of the world will stabilize at about 11 billion around the middle of the 22nd century.


Figure 1.2 Real wages in London over seven centuries. This figure shows the average real wage of skilled construction workers in London between 1254 and 1999. The term “real” means that the monetary wage in each year has been corrected for any price inflation that occurred.

FIGURE 1.3 Two millennia of world GDP per capita. The larger chart in this figure presents inflation-adjusted estimates of output per person (GDP per capita) for the world as a whole during the last two millennia. These estimates are the result of more than half a century of empirical research conducted by Angus Maddison, one of the world's foremost scholars of global population size, technical change, and productivity growth. According to Maddison, the world's output per person remained at relatively low levels until 1820, with increases in output being largely absorbed by corresponding increases in the world's population. In the period since 1820, however, the technical changes associated with the rise of capitalism have allowed for a dramatic expansion of output per person. Although the data in the main chart show output per person averaged for the world as a whole, the insert shows how the productivity increases of the past few centuries have been generated disproportionately, and enjoyed unequally, by the various regions of the world. Since the vertical distances in the smaller chart represent percentages of total world output, and since all the regional shares thus represented must add up to 100 percent, the movements of any one region's output may seem exaggerated since any change in output in one part of the world must be offset by an opposite movement in at least one other part. In any case, the smaller chart reveals striking changes in shares of world output that are not shown in the larger chart.

Return on Capital and Labour in the U.S.A.

Real Capital Gain and Dividends on the S&P500*
(10-year moving average, left)

Real Hourly Wage in Private Industry
(10-year moving average, left)

Ratio of Capital Gain and Dividends to Hourly Wage
(10-year moving average, right)

NOTE: real series are computed by deflating nominal data by the CPI.
* Capital gains and dividends is the difference between successive values of the S&P500 Total Return Index.
SOURCE: U.S. Bureau of the Census through Global Insight; Global Financial Data (www.globalfindata.com)
Industrial Production in the Industrialized Countries (annual % change)

NOTE: Straight lines represent linear trend (middle), trend plus one standard deviation (top) and trend minus one standard deviation (bottom).
SOURCE: IMF through Global Insight.
Consumer Prices in the UK

Price increase from 1900 to 2000: 4.867%

Price increase from 1300 to 1900: 769%

Inflation and Growth in the United States

NOTE: Figures are smoothed as 20-year moving averages.
Two Types of “Investment”

Buy-to-Build Ratio
(Mergers & Acquisitions as a %
of gross fixed capital formation)

Trend growth rate:
3% per annum

General Government Final Consumption Expenditure
(% of GDP)

NOTE: Cutoff point between Middle and High Income countries: $9,385 Gross National Income per Capita.
SOURCE: World Development Indicators 2005.
The Globalization of Ownership

Foreign Assets / Total Assets


www.bnarchives.net