24.03.2021

1. **The idea of economic and social change**

Capitalism: It emerged between 15th and 16th century in Manchester, England. Manchester was the beating heart of the British industry. Before capitalism, there was feudalism in Europe.

Feudalism: There were landlords (aristocrats) and peasants (serf). Landlords owned the land. Peasants till the land, work on the land. This system is mostly agrarian, based on agriculture.

Aristocrats: They have higher status, position. One becomes an aristocrat through birth right (blue blood), being given this title by the king or the queen if you are helpful in winning a war, or a successful businessman or a rich factory owner. They are the ruling class and have political power. They have an influence on policy (economic policy, tariffs, public works).

Peasantry: They are usually small scale (family-sized) agricultural producers. This is also called subsistence farming. They do this type of farming in order to survive and satisfy their own needs. Serf is a particular category of peasantry. They don't own the land, rent the land. They are tied to the land which belongs to the aristocrat. The landlords estimate the value of their estate with the number of souls/serfs that it includes. In serfdom, there is no such thing as gaining your freedom. In a lot of feudal cities in Europe, serfdom was the rule.

Cities/towns as spaces of freedom: Merchants, artisans, and financiers are the bourgeoisie, and they lived in towns.

2. **Socio-economic analysis before classical political economy**

Where does wealth come from?

Mercantilists: Wealth comes from trade excedents, the difference between the export and import. They tried to impose tariffs on imports quite successfully.

Physiocrats: Wealth comes from the land, everything that is produced on the land. This is the source of surplus. Let's say a peasant has a ton of weed. The peasant and his family consume 500 kg of it, and they use the other 500 kg to till the land. At the end of this year, they harvest 2 tons of weed. Out of these 2 tons, 1 tone will go to the peasant, 500 kg for consumption, and 500 kg for seeds. The other 1 tone is the surplus. It is paid to the landlord as tax or rent.

3. **Transition from feudalism to capitalism**

   Economic aspect

Classes under Feudalism

Class: A group of individuals that have shared material conditions or interests. In feudalism, there are landlords, peasants, and bourgeoisie.

Bourgeoisie: They own tools, machines, raw materials, what Smith calls stock, what Marx calls capital, the workshop. Their income is called profit.

As cities start to grow in wealth with the increase of trade, the bourgeoisie will rise as a class.

English model: The peasantry became the workers. They left the country and moved to cities over time. Landlords as a class collapsed and the bourgeoisie rose. In England, there are four factors in this transition:

1. The increase in long distance trade: It is going to lead to the growth of markets and bigger cities.

2. The growth of agricultural productivity: These are the necessary conditions for capitalism: horse drawn plough (one horse, one peasant), crop rotation (follows) (figure 1).

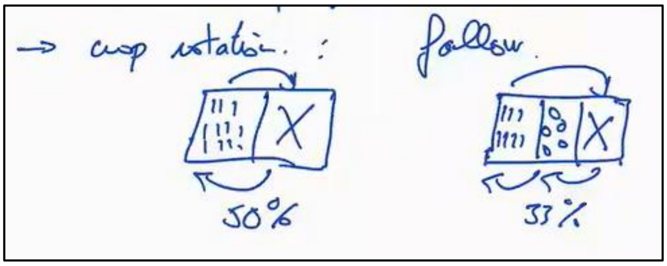


Figure 1: Crop rotation

3. Enclosure of the land/common: You have the castle. Around the castle you have land. The peasants work on that land. There is one land called commons. That land is reserved for the use of the serfs: the grazing land on which the peasants are free to bring their cattle for grazing. You also have forests. The peasants can pick dead pieces of wood to hide themselves in the winter. These are called customary rights and they make up the feudal property. Landlords can close those grazing lands. As textile factories started to emerge, the demand for wool exploded. Some landlords saw this as an opportunity to make profit. They decided to go against the customary rights and confiscate these commons to raise sheep and sell the wool to the artisans of the cities. As a consequence, life got harder for the peasants. The landlords started to need more land for the sheep and kicked out some peasants from their land (figure 2). The peasants had to migrate to the cities. The more land gets enclosed, the rise of wool supply, the rise of labour supply (migration).

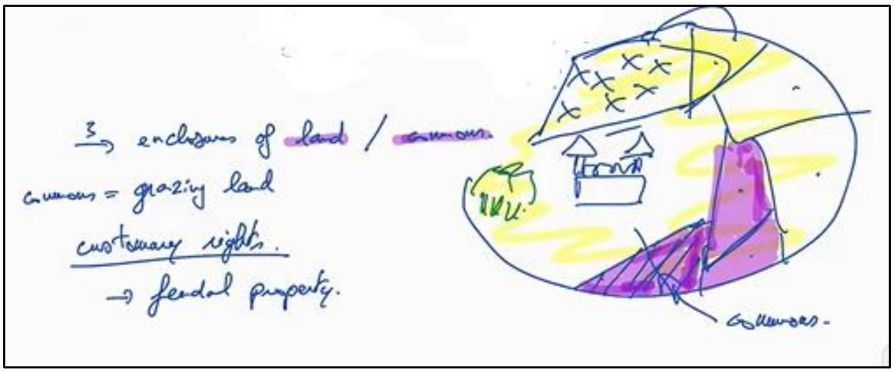


Figure 2: Enclosure of the land/common

4. The rise of the putting out system: The merchants made an offer that artisans couldn't refuse. Let's say you are an artisan. Merchants told them that "I will bring you the materials you need, and buy everything you produce.". Then, merchants invited them to their workshop. That is the beginning of manufacture. This is the process whereby the artisans transform themselves to workers.

Political aspect

English model: Corn Laws are tariffs on imports of grain. The rise of the political influence of the bourgeoisie is going to happen incrementally. The consequence: the fusion between the bourgeoisie and the aristocracy.

French model: No concessions. The bourgeoisie had to gain power by force. French Revolution.

31.03.2021

Adam Smith: He wrote Wealth of Nations (1776), and mentioned the concept of division of labour.

1. **Division of labour**: Different people do different things (figure 1). There is an exchange of productivity between people.

it is divided into a number of branches, of which the greater part are likewise peculiar trades. One man draws out the wire, another straights it, a third cuts it, a fourth points it, a fifth grinds it at the top for receiving the head; to make the head requires two or three distinct operations; to put it on, is a peculiar business, to whiten the pins is another; it is even a trade by itself to put them into the paper; and the important business of making a pin is, in this manner, divided into about eighteen distinct operations, which, in some

Figure 1: Division of Labour

Society of two people: One hunter, and one bows/arrows producer. There is no societal surplus.

What if you don't have division of labour?

D.o.l. has 3 level of analysis:

1. The technical d.o.l. (in the factory, on the factory form)

2. The societal/social d.o.l. (in society between different works/activities)

3. The international d.o.l. (different countries tend to specialise in different activities)

2. **Conditions for the rise of d.o.l.**

1. Supply + demand = possibility of exchange

Supply is determined by the surplus.

Demand is determined by three aspects: the density of the population, the quality of the transportation, and wealth.

3. **The consequences of d.o.l. for individuals**
- The rise of productivity (the most important result) happens for three reasons:
    - The increase in dexterity/agility/skill
    - Saving time between changing tasks
    - Innovation + mechanization
- The stupification of workers (maybe close to Marx' alienation)

4. **The consequences of d.o.l. for society**
- General opulence/universal plenty (the most important result)
- The rise of interdependence, there is more exchange.
- The rise of cooperation (more on the factory level)

5. **D.o.l. and social classes**

According to Smith, the bourgeoisie should have a very simple lifestyle, tighten his belt, and use all his profit back to the production process by buying more materials than before, hiring more workers than before.

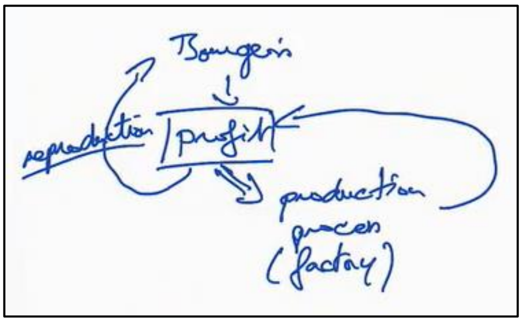


Figure 2: The bourgeoisie has profit. Part of this profit goes back to the bourgeoisie for reproduction (subsistence). The larger part of the profit hoes to the production process (factory) which gives you the profit.

How can the profit go the aristocracy? Through rent.

Rent: You can pay rent through housing or food prices. The aristocrats will make workers to pay for housing and food through rent. This will have consequences on wage levels. They will need higher wages. The wage is equal to the reproduction (daily and long term) cost of the labourers.

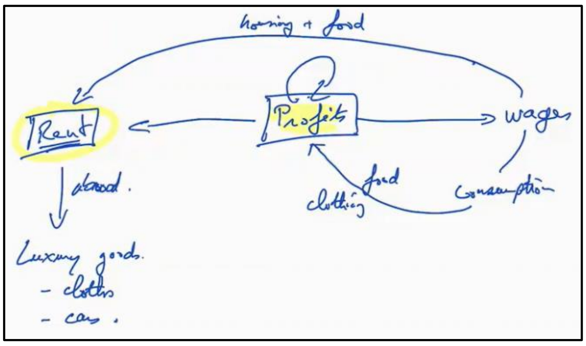


Figure 3: There are profits, wages and rent. Part of the profit goes to rent and is also partly goes to rent through wages with housing and food. The wages, through consumption (can be food, clothing), end up largely going back to profit

What do the aristocrats do with the rent? They tend to buy luxury goods from abroad. The money just goes to another country. That's the main reason why Smith and Ricardo are wondering what the role of the aristocrat is in the economic circuit. The conclusion they came is that rent is terrible.

David Ricardo: He has the theory of differential rent. There are different types of rent. Some lands are very fertile, and there are some lands that are harder to work on. Let's say you produce 50 tons of weed on A land. On B land which is less productive, you produce 30 tons. And, on the C land which is the least productive, you produce 10 tons with the same level of capital and labour. This 10 ton is going to determine the level of rent on other lands. The rent is going to be 40 and 20 in A and B respectively. If all the land is used and you need more food, then, you start opening even worse lands, D type land that can only produce 5 tons. Now, C starts to have rent of 5. The rent of the B increases to 25 and A's to 45 (figure 4).

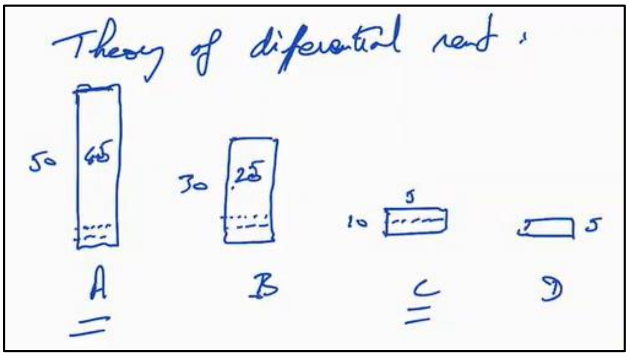


Figure 4: Theory of differential rent

07.04.2021

Ricardo: Wages and profit have an antagonistic relation. Wages are determined first.

Natural wage: The minimum amount necessary for subsistence. We assume this natural wage is stable in the short term.

Actual wage: It fluctuates around the natural wage. If the wages are above the natural wage, the working class is going to become wealthy and reproduce a lot. It can also attract workers from other countries.

If wages are low, profit will be high and vice versa. The higher the share of the profit is the better.

Rent has a direct impact on the level of wages through agricultural prices. Food is the main consumption. Agricultural prices are determined by the price of agricultural labour, the price of agricultural capital, and also by rent.

Corn Laws (1815-1846): Tariffs on import of foreign corn/grain. You artificially create a national monopoly on the corn market. Only national producers will be able to sell their corn. They artificially increase the level of natural wages. This increase in wages ends up being eaten from the profits. That share ends up in the pockets of the landlords.

Theory of differential rent: If you have Corn Laws and don't have access to foreign corn because the tariffs are so high, then you're stuck with your own national land and exploit poor land. By doing that, the level of land is going to increase even more. If you don't have Corn Laws, you don't need to exploit poor land. Then, the rent falls to 20 in A land, and this is catastrophic for the landlords of the C and D lands who have no one to exploit them.

Classical Political Economic Theory: You don't really have a dynamic historical analysis. They don't assume there will be radical changes in the way things work, and think that the needs of the population are satisfied in the way the economic system functions. Linear vision of history.

Karl Marx (1818-1883): There are radical changes sometimes. For Marx, the point is to analyse capitalism. There are two circulations:

1. **Simple circulation**: Commodity (a product produced to be exchanged in the market) – Money – Commodity. You sell a commodity to get money, and with that money buy a different commodity with the same value. The first commodity in the circle is labour power. Money as a tool for exchange.
2. **Capitalist circulation**: Money – Commodity (raw materials, buildings, machines, labour power) – Money. With money, you buy some goods. With these commodities, you produce and combine them. At the end, you end up with more money. Same thing but different values at the beginning and the end. Money as capital. Labour power is a type of commodity thing that can create more value.

Work day of a slave: Taking care of his own reproduction, taking care of his master.

Work day of a wage labourer: Some part for reproduction, some part for working for the bourgeoisie (surplus).

Wage: The socially necessary labour time for reproduction (daily and generational).

Scientific socialism X Utopian socialism

Exploitation: Workers work for more than the settled work hours but are paid the same. The difference between slavery and capitalism is that exploitation is hidden in capitalism, behind the wage relation.

14.04.2021

Dynamics of Capitalism for Marx:

- **Workers/proletariat**: They own nothing but their children/offspring. They are subjected to exploitation.
    - Hidden exploitation: The extraction of surplus value is hidden through wage relation.
    - Reserve army of labour: The mass of people who are unemployed and they migrate in hope of a better fate. Another thing they to as there are so many people, they keep the wages low. It prevents labour from exerting proper pressure from capital. It creates competition between workers.
- **Bourgeoisie/capitalists**:
    - Competition between capitalists: They have to compete in order to reinvest and to get the most profit possible. One way to get the most profit is to lower the wages.
    - Necessity of rising exploitation: One way to raise exploitation is to reduce the cost of reproduction of the working class. That is called the relative surplus value. Another way to increase exploitation is the extension of the working day but it is limited. That is called the absolute surplus value. Relative surplus value (happens naturally, concerns everyone) VS Absolute surplus value (done by only one) (figure 1).

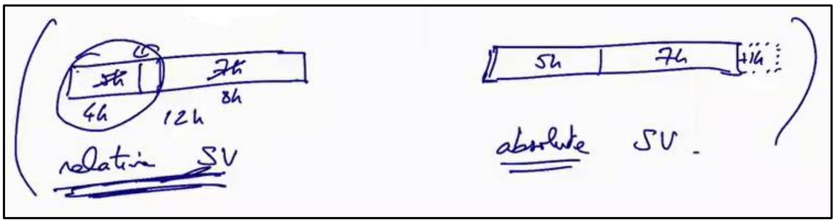


Figure 1: Relative surplus value vs Absolute surplus value

Consequence is the rise of polarization.

- **Crises of abundance**: It is the crisis of overproduction in which good are produced, factories are working, but the goods aren't sold. Goods just pile up in warehouses but you don't have anyone to buy them because of the rise of polarization. The wages are so low that they are barely at the reproduction level. This was especially true during competitive capitalism (19th century capitalism).

According to Marx, this is going to lead to a final crisis of capitalism.

Smith: more optimistic, general opulence, universal plenty

Ricardo: He is pessimist and worried with the scarcity of the land.

Marx: He is pessimist at first because of the final crisis, but also optimist because this crisis is an opportunity with the rise of communism.

Capitalism: You have the private ownership of the means of productions. The motive for production is profit. You have two classes: bourgeoisie and wage workers.

Socialism: You have state/public ownership of the means of production. The motive is human needs. There is only one class: no classes (the rise of bureaucracy). You still get rewarded according to your work. It is not equal to social democracy or welfare capitalism.

Communism: You have the social ownership of the means of production. There is no state. You have no classes. The motive is human needs. You are rewarded according to your needs.

Inequalities and question of measurement

GDP (Gross Domestic Product): It is everything produced by a country. = state expenditures + consumption + investment + difference between export and import.

HDI (Human Development Index): It includes the GDP (per capital/person) + the years of schooling + life expectancy at birth.

Measurement of inequality: Income is a flow, usually is less unequally distributed than wealth. Wealth is a stock. They can be measured through analysing the tax data, fiscal data or surveys. The most basic indicator is Gini index. Lorenz curve is the distribution of the population based on their income or wealth. You rank people from the poorer to the wealthier. The first half of the population (left half) has the 20% of the total income of society from 0 to 1. The richer half has the rest which is 80% of the total income (figure 2). The top 10% owns about 60% of the total income.

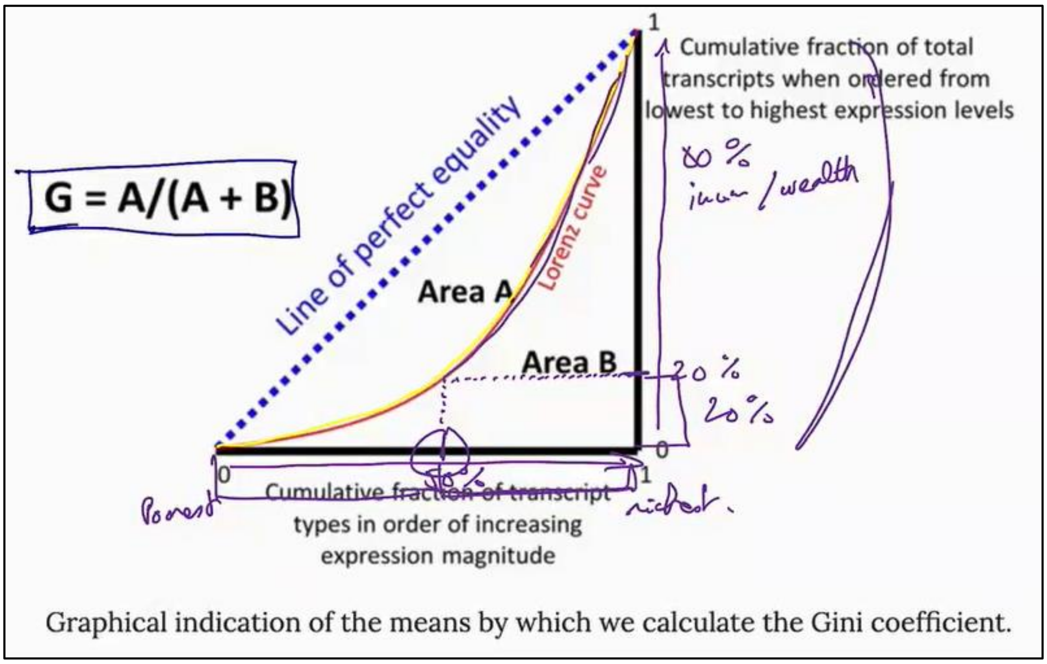


Figure 2: Gini index

If everyone has the same amount of income, “Line of perfect equality” would be the distribution. The closer you are to 1 in the result of the formula, the more unequal you are and the closer you are to 0, the more equal you are. Scandinavia in the 70s was about 0,2. Turkey today is about 0 42. France is about 0,35. Brazil is about 0,65.

The other way is to look at the percentiles: the share of total income/wealth captured by a certain percentile of the population. In 1910, the top 10% used get about 40% of the total income. It goes to around 30-32% after the WW2, and starts going up again. At the beginning of the 20th century, there are three big shocks: WW1, the Great Depression (1929), and WW2. The first shock creates income tax. In the second shock, there are demand side policies. With the third shock, the income tax is going to rise again (figure 3).

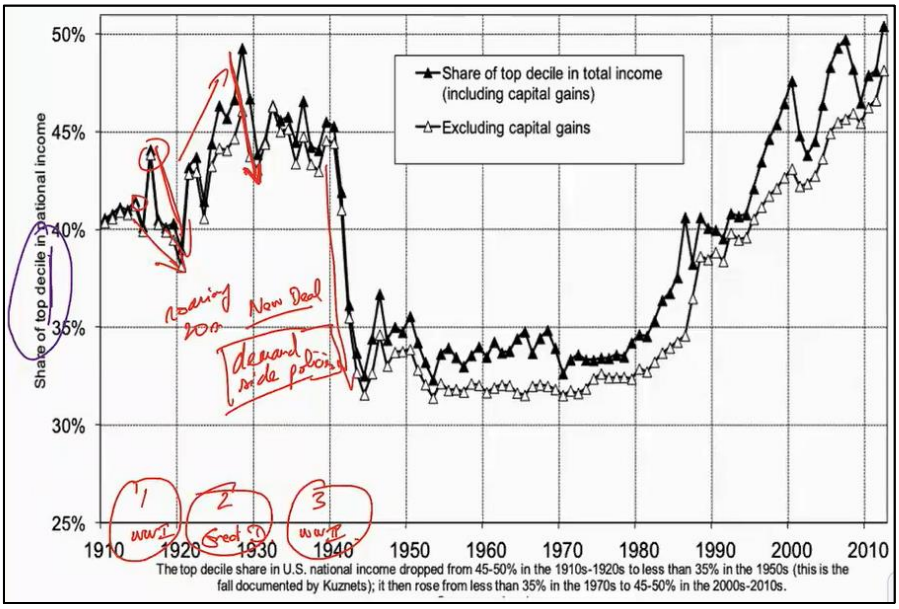


Figure 3: Income inequality in the US, 1910-2012

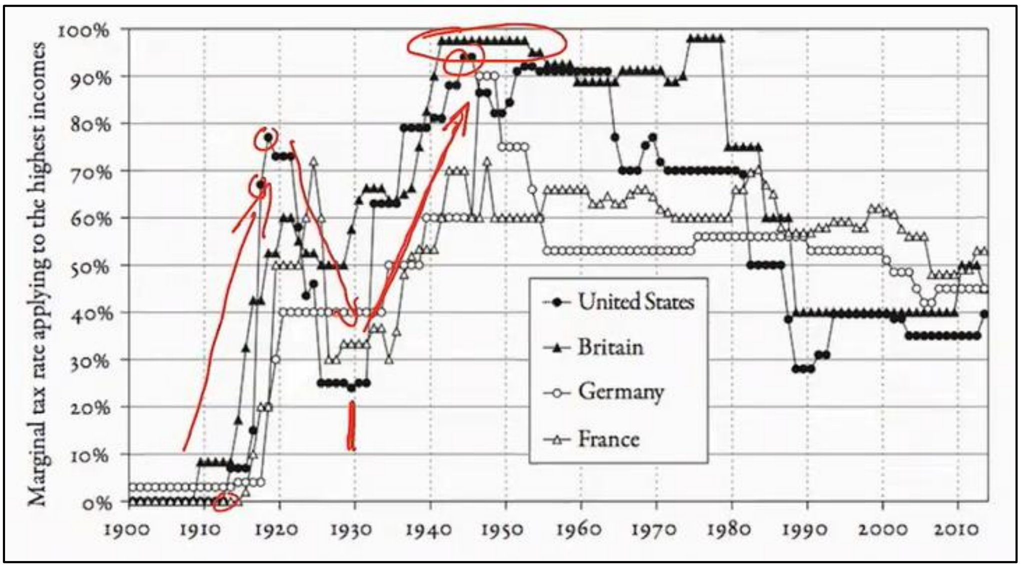


Figure 4: Top income tax rates, 1900-2013

Income tax: It works usually by progressive tax (figure 5) meaning it is a tax whose rate increases as the income increases as opposed to flat tax (KDV). There are four trenches. The first trench is 10% of 10K. If you make more than 10K a year, then, you're going to pay 20% on your next 10K. In the third trench, you pay 27% on your next 30K. In the last trench, everything above 50K is going to be taxed at 35%.

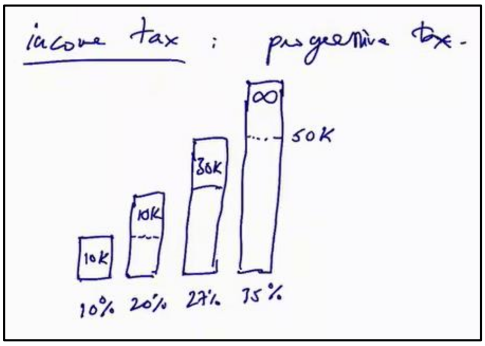


Figure 5: How progressive tax works

In the US, the majority of the top 10% gets their income from labour, and small part of it from capital.

21.04.2021

Fordist era (welfare state): You have cooperation between employers and labourers. The state plays a role of referee between two. The working class got much more comfortable than they were. Unemployment rises in the 1970s. Then, unemployment benefits are revised. The slow destruction of the welfare state. Middle class is the result of Fordist era.

Neoliberal era (after the Fordist era, around 1980s): The capitalist class basically revolted. Very radical change in the way state regulates the economy. By 2012-13, we are back above the levels of inequalities of 1929.

The periods of finacialization/stock markets/real estate (the purple areas): These financial assets tend to boom in periods in which profits have been accumulated from production, anything that necessitates actual labour. A lot of profits have been made but the profit rates started going down. Cooperation owners started to think "Is it worth investing?". Stock market makes 10-20% gain every year. People started to invest in financial markets. It happens before the financial crisis in 1929 (roaring 20s), in the 1980s until the financial crisis of 1986 (black Friday), in the 1990s until 2000 (dotcom bubble), in 2007 (the US mortgage bubble) (figure 1)...

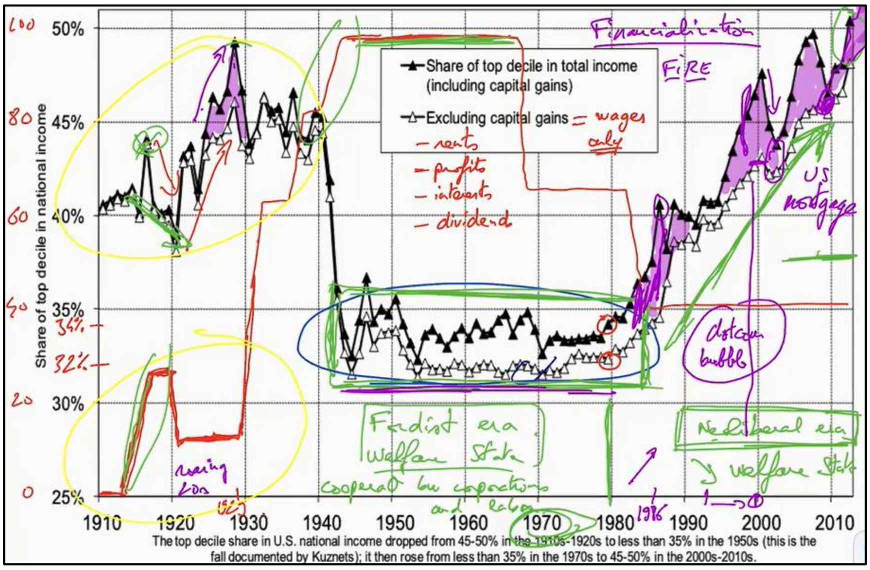


Figure 1: Income inequality in US, the Fordist Era and Neoliberal Era

The first difference between US and France is that the black line doesn't go up after 1980s, and the second difference is the huge gap between the wage bill and the total income (almost the half) (figure 2).

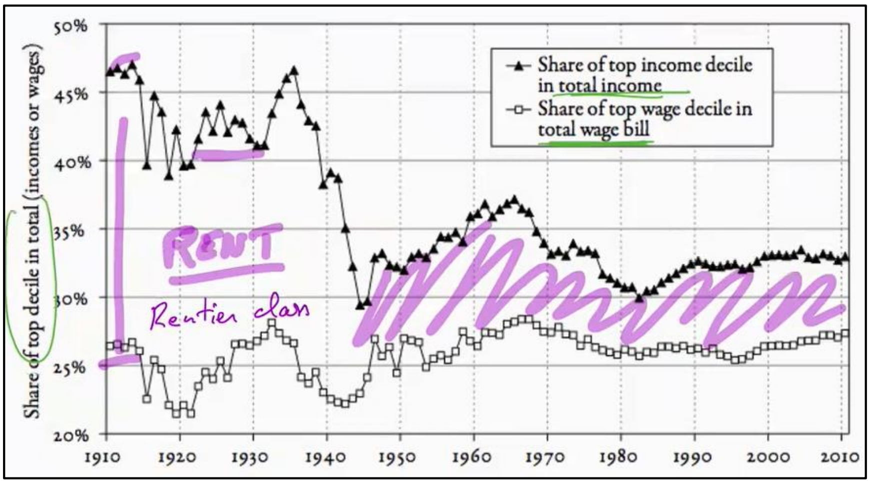


Figure 2: Income inequality in France, 1910-2010

Rentier class: The class that makes its income not by working but cashing in rent from the buildings.

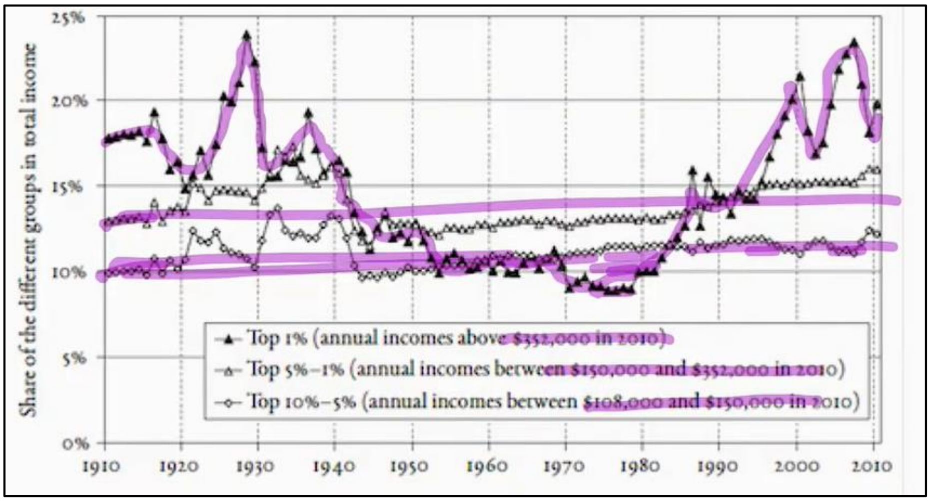


Figure 3: Decomposition of the top decile, US, 1910-2010

Market failures:

1. **Information failure**: The pricing signal comes too late.
2. **Concentration of becoming power**: Certain sectors of the economy are controlled by a couple of firms or sometimes even one firm. Then distortions happen, which is no equilibrium between supply and demand because the supply is going to be decided and regulated only by one firm so supply is not going to adjust to the demand.
3. **Negative externalities**: One of the biggest negative externality is pollution.
4. **Problem of short-term horizon**: It is extremely clear in Neoliberal Era. The point of most of the firms now "How do we increase profits right now?" so that the stockholders are happy.
5. **Management of public goods**: Private property and market arrangements are necessary. What is the best way to manage public goods available to everyone like land?

28.04.2021

Piketty: Capitalism is inherently unequal because of this low rate of return on wealth is usually greater than g which is the growth rate of income (r>g). Because the return on capital is greater than the increase of income, then, people who are rich get richer faster than people who aren't. For example, renters. Wealth leads to increase in inequality because wealth accumulates through generations through heritage.

Share of different groups in total labor income	Low inequality (≈ Scandinavia, 1970s-80s)	Medium inequality (≈ Europe 2010)	High inequality (≈ U.S. 2010)	Very high inequality (≈ U.S. 2030 ?)
The top 10% "Upper class"	20%	25%	35%	45%
including: the top 1% ("dominant class")	*5%*	*7%*	*12%*	*17%*
including: the next 9% ("well-to-do class")	*15%*	*18%*	*23%*	*28%*
The middle 40% "Middle class"	45%	45%	40%	35%
The bottom 50% "Lower class"	35%	30%	25%	20%
Corresponding Gini coefficient (synthetic inequality index)	0,19	0,26	0,36	0,46

In societies where labor income inequality is relatively low (such as in Scandinavian countries in the 1970s-1980s), the top 10% most well paid receive about 20% of total labor income, the bottom 50% least well paid about 35%, the middle 40% about 45%. The corresponding Gini index (a synthetic inequality index going from 0 to 1) is equal to 0,19. See technical appendix.

Figure 1: Inequality of labour income across time and space

Share of different groups in total capital	Low inequality (never observed; ideal society?)	Medium inequality (≈ Scandinavia, 1970s-1980s)	Medium-high inequality (≈ Europe 2010)	High inequality (≈ U.S. 2010)	Very high inequality (≈ Europe 1910)
The top 10% "Upper class"	30%	50%	60%	70%	90%
including: the top 1% ("dominant class")	*10%*	*20%*	*25%*	*35%*	*50%*
including: the next 9% ("well-to-do class")	*20%*	*30%*	*35%*	*35%*	*40%*
The middle 40% "Middle class"	45%	40%	35%	25%	5%
The bottom 50% "Lower class"	25%	10%	5%	5%	5%
Corresponding Gini coefficient (synthetic inequality index)	0,33	0,58	0,67	0,73	0,85

In societies with "medium" inequality of capital ownership (such as Scandinavian countries in the 1970s-1980s), the top 10% richest in wealth own about 50% of aggregate wealth, the bottom 50% poorest about 10%, and the middle 40% about 40%. The corresponding Gini coefficient is equal to 0,58. See technical appendix.

Figure 2: Inequality of capital ownership across time and space

Gender: Gender is one of the main categories that sociologists look at when it comes to inequalities. Sex is a physical, biological difference while gender is socially constructed.

Gender pay gap: Women are paid less although they do the same work or have the same background.

Nation/Nationalism: For example, France has a state-based nationalism, will to participate in political life, subjective definition of the nation, jus soli (right of the soil); Germany has a folk-based idea, intrinsic elements such as language religion, culture or blood, objective definition of the nation, jus sanguinis (right of the blood).

Universalism: The idea that everyone is equal. Capitalism makes use of the idea of equality in front of the market.

Racism/Sexism: These can work to exclude part of the population from the workforce or to have access to lower wages.

AFTER THE BREAK

26.05.2021

Neoliberal Era: An era in which the state withdraws from the economy, gives up on the welfare.

Neoclassical econ. Definition of Neoliberalism: Retreat of the state from the economic sphere., no minimum wage, no tariffs, no pensions, no unemployment benefits. In the end, it will lead to more wealth, sort of trickledown economics, no redistribution, no high income tax.

Alternative definition of Neoliberalism: Reorientation of state capacities away from regulating inequalities, protecting labour to protection of profits, corporations of interest.

Inequalities between countries

The notion of core and periphery: It is about division of labour, specialization of certain areas. Core is the secondary sector, transformation of raw materials into products, monopolistic activities (textile industry in the 19th century). Periphery is the primary sector, extraction of raw materials (agriculture (timber), mining), determined by the market, competitive activities (textile industry today). Profit comes from the core activities. Any monopolistic activity becomes competitive in time because of several reasons. The first one is that technology spreads. Another one is the capital movement and profit rate.

Kenneth Pomeranz: The Great Divergence. In the 16-17th century, England, Eastern China, and Japan had similar levels of institutional, technological, market development. Why did capitalism develop in England instead of Eastern China or Japan? The main answer is an environmental bottleneck, cul-de-sac. England will benefit from the fact that it has a new periphery via colonization of the Americans.

International division of labour: The exchange between core and periphery can be summarized by the cheap raw materials for expensive finished products.

Intellectual property:

1. Patents: Protects industrial designs

2. Copyrights: Protects the artistic productions

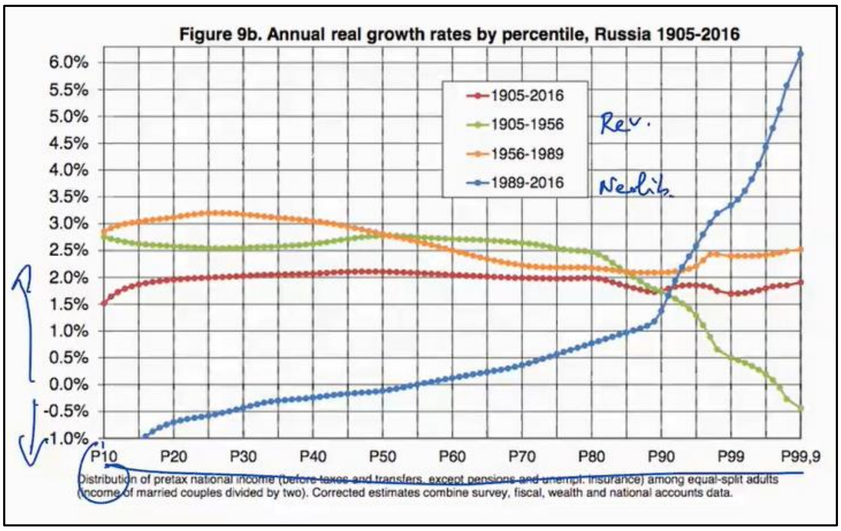
3. Trademarks: Protects logos and brands

WTO (World Trade Organization): 1994. TRIPS created a global intellectual property region.

02.06.2021

(This part is short because it was a bit unclear for me. So, I didn't know what I should take note of.)

In the first years of Soviet Union, the state directed most of the investments. One of the early achievements of the Soviet Union was electrification. Russia is the worst in terms of implementation of neoliberal policies.



09.06.2021

Germany, Russia, the US, France and Italy managed to catch up with England by organizing production, restricting trade movements, restricting the access of English traders to their territory. Soviet experience was much more radical because that was not within capitalism. It was a break from capitalism. It could teach how to reform in a different way via planning. This reform was copied by a lot of capitalist countries such as Turkey and France and also third world countries that emerged after WW2 as a consequence of decolonization.

ISI (Import Substitution Industrialization)(1960s-70s): The point of this program was to substitute imports with industrial products that were made locally. The industrial goods which are needed by national agricultural sector, the new industrial sector of the nation, and the population of the country should be primarily produced in the country. The idea is to putt high tariffs on the goods in order to protect the local producers of those goods. It cuts down the amount of imports of the country. It breaks the relationship between the core and periphery. This transition is not easy because they don't have the capital, accumulated wealth. These countries need to take loans to be able to finance those factories and programs. There are two suppliers of loans:

- The US: Loan in dollars, payment in dollars
- USSR: Loan in rubble, payment in rubble or kind

Third World as Political Alliance

NAM (Non-Aligned Movement) (1950s): A political alliance of former colonies who tried to foster the agenda of the third world.

NIEO (New International Economic Order) (1970s): A complete reworking of the world economy, international trade.

1970: Productivity crisis in some Western industries partly because of 2 oil shocks (the first one due to Arab countries' blockade, the second one due to Iranian Revolution). A period of stagflation meaning economic stagnation+inflation.

The US: The election of Reagan, 1980. They fight back strongly against third world demand.

The UK: The election of Thatcher, 1975.

Volker Shock: Federal (central bank of USA). It led to inflation about 12%, interest rate up to 20%, increase in price of credit, bankruptcy of the least profitable firms (e.g. Detroit).

International Consequences of the Volker Shock: Increase in the exchange rate of dollar, increase in the cost of borrowing in dollars.

Third World Debt Crisis (1980s): Countries risked going into default. Mexico is the first country to threaten to default in 1983. The countries started to take the deal offered to them by countries on the north via IMF. It proposed SAP (Structural Adjustment Program). The point of this program is to have a trade surplus to be able to get hot currency in the country in order to repay the debt. It is basically a conditional loan dispersed in tranches. SAPs followed some conditions such as lowering of state budget including health care, education…, lowering of tariffs meaning liberalization of trade, increase of privatization of state enterprises, export-led economy to have a trade surplus.

Consequences of SAPs: Social crisis, export-led development fails because of a collapse in the prices of commodities or raw materials (financialization, sluggish industrial demand, and glut of commodities on world market), inequality between and within countries increased. South Africa is the most unequal country.

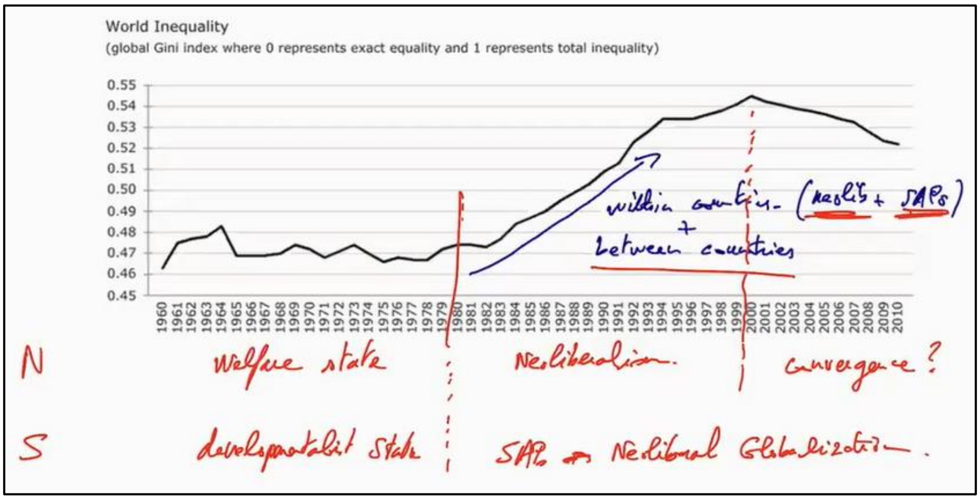
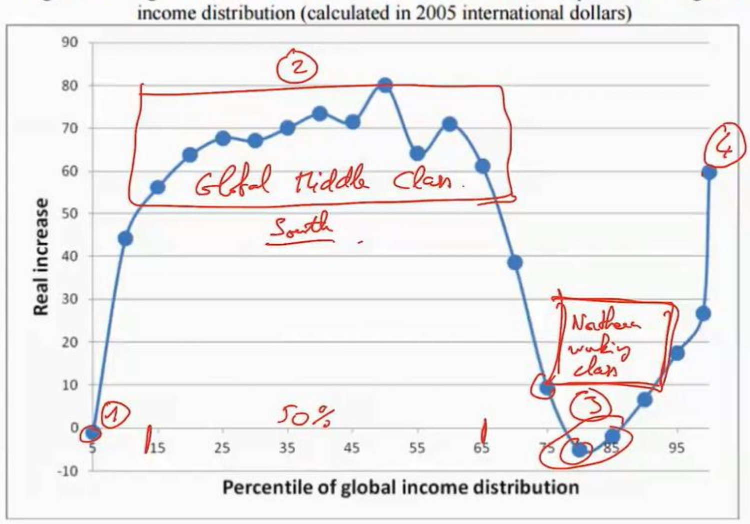


Figure 1: Inequality in North and South during different periods

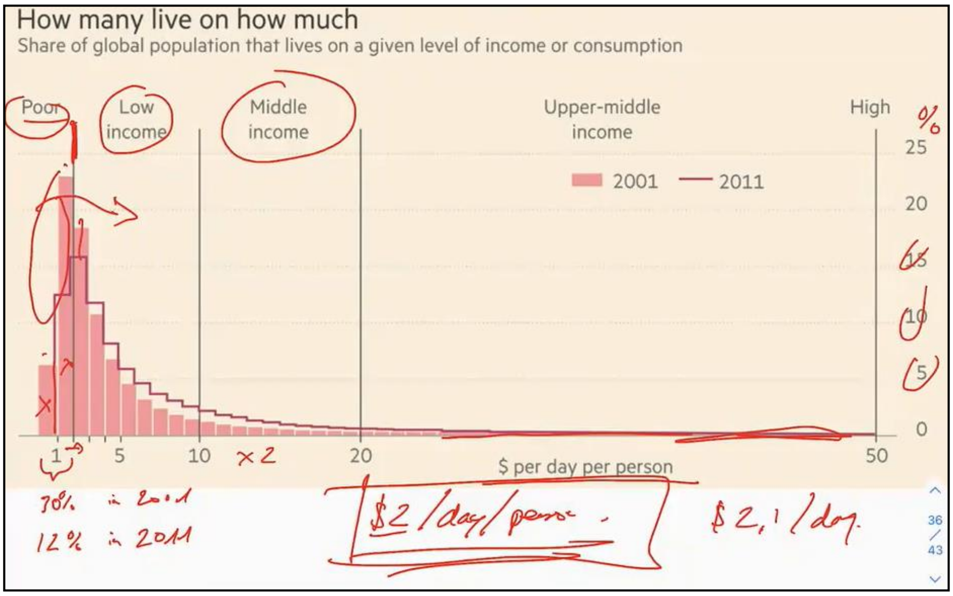
16.06.2021

The first group are poorest people in the world, peasants in developing countries such as Sub-Saharan Africa, South Asia. They have the lowest income rate, and it didn't budge between 1988 and 2008. The fourth group are the global elite, the richest people in the world. They got 60% increase in their real income. The second group are the global middle class, 50% of the world population, mostly in South. Their income rose considerably.

Figure 4. Change in real income between 1988 and 2008 at various percentiles of global income distribution (calculated in 2005 international dollars)



The third group are the Northern working class. They are the middle class of rich countries. Their income stagnated in twenty years.



Depeasantazitaion: Disappearance of the peasantry, modern day enclosures. The peasants diversify their activity. They become semi-proletarian. They realize it is hard to live as a peasant. So, they keep their land, but half the time they work in mine, industry or so. Semi-proletarianization leads to higher wages.

Land Grabs: The states dispossess their peasantry from their land in order to seize or sell those lands to global corporations.