

# The Capitalist Revolution

## ECONOMICS

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UCL

Lecture 1

# HOW WILL THE COURSE WORK

Essential Reading      Core Econ (2016). The Economy: The Core Project.  
[core-econ.org/the-economy](http://core-econ.org/the-economy)

Plan      One unit each week

Time      20 units in 10+10 weeks

*Week 6      Chapter 1      The Capitalist Revolution.*

Week 7      Chapter 2      Technology, population, and growth

Week 8      Chapter 3      Scarcity, work, and choice

Week 9      Chapter 4      Social interactions

Week 10      Chapter 5      Property and power

Week 12      Chapter 6      The firm: Owners, managers & employees

Week 13      Chapter 7      The firm and its customers

Week 14      Chapter 8      Supply and demand

Week 15      Chapter 9      The labour market

Week 16      Chapter 10      Banks, money, and the credit market

# IN THIS LECTURE

**Concepts** we will cover in this lecture.

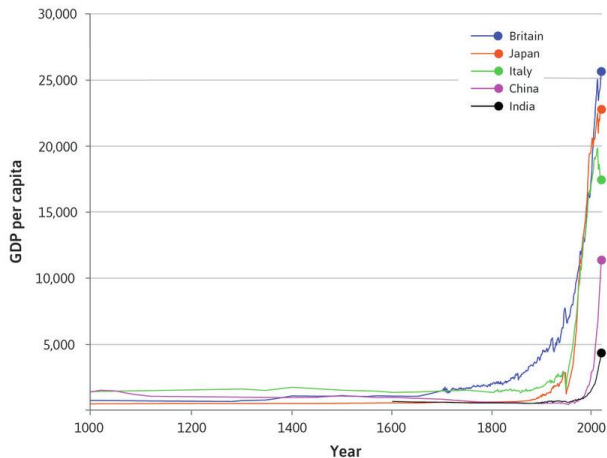
- *Inequality*
- *Economic growth*
- *Technological revolution*
- *Capitalism*

**Reading:**

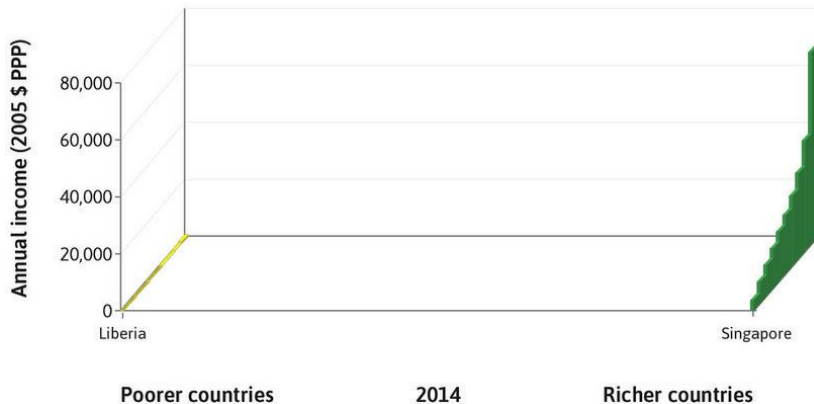
- Core Econ (2017). The Economy.  
*Chapter 1 The capitalist revolution*

# CONTEXT

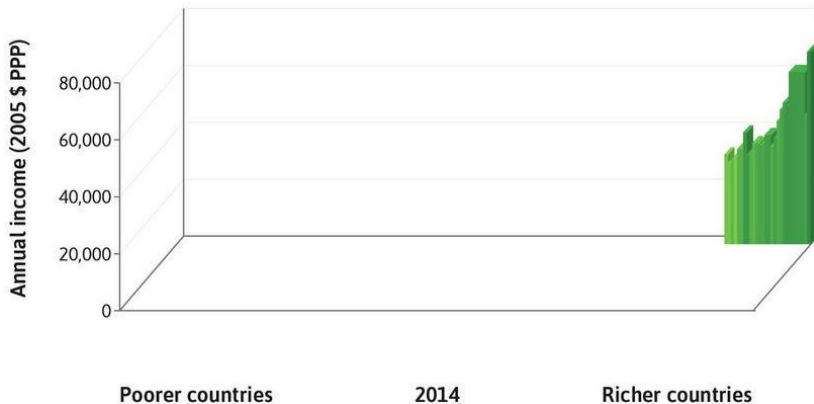
*Why was there sustained growth in average living standards after 1700?*



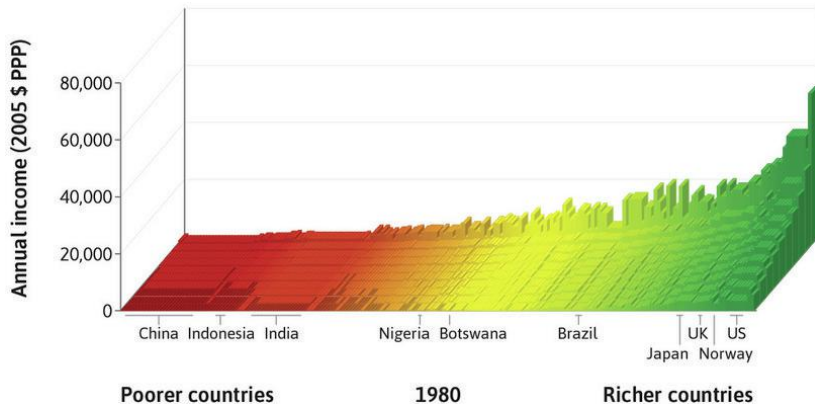
# INEQUALITY: SINGAPORE



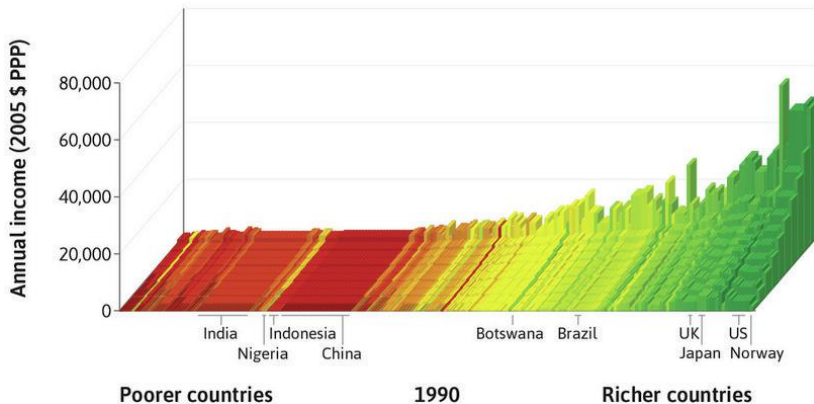
# INEQUALITY: TOP 10% IN RICH COUNTRIES



# INEQUALITY: 1980

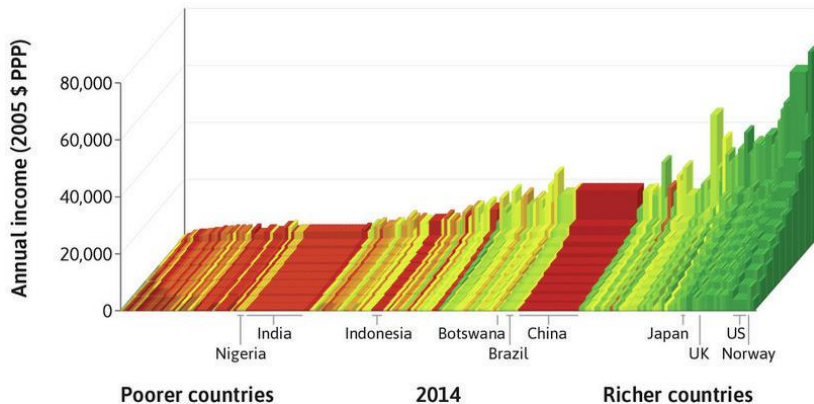


# INEQUALITY: 1990

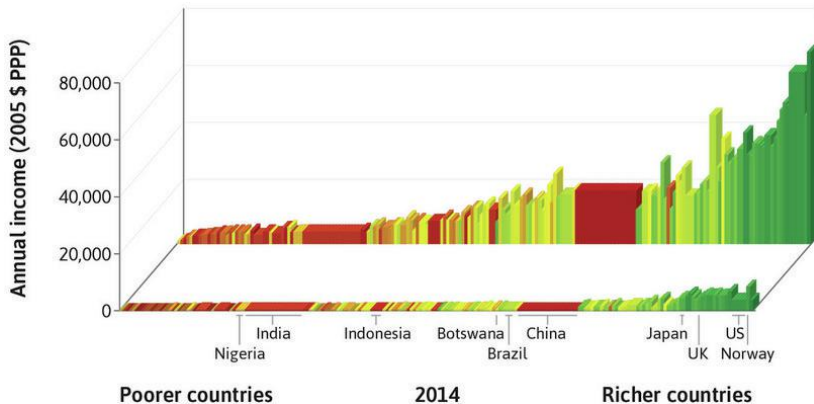




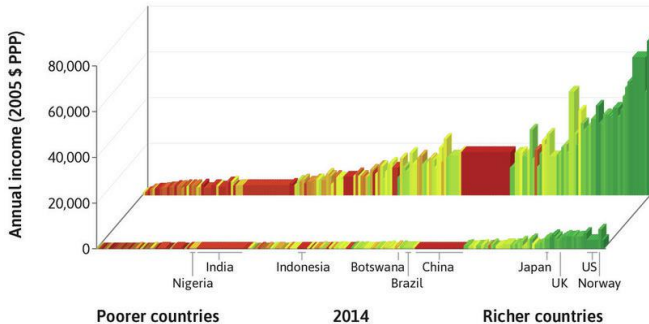
# INEQUALITY: 2014



# INEQUALITY: TOP 10% AND BOTTOM 10%



# INEQUALITIES IN NUMBERS



<i>Average Income</i>	<i>Richest 10%</i>	<i>Poorest 10%</i>
Singapore	\$67,436	\$3,652
Liberia	\$994	\$17

# WITHIN AND BETWEEN COUNTRY INEQUALITY

*Extreme equality*: 1,000 years ago, the world was “flat”.

*Era of growth*

Sustained growth in some countries, others still in the flatlands

*Inequality*

*Within* country *inequality* and *across* countries.

both types of inequalities seemed to be increasing

# INEQUALITY AND GROWTH

For a long time, *living standards* did not grow in any sustained way.

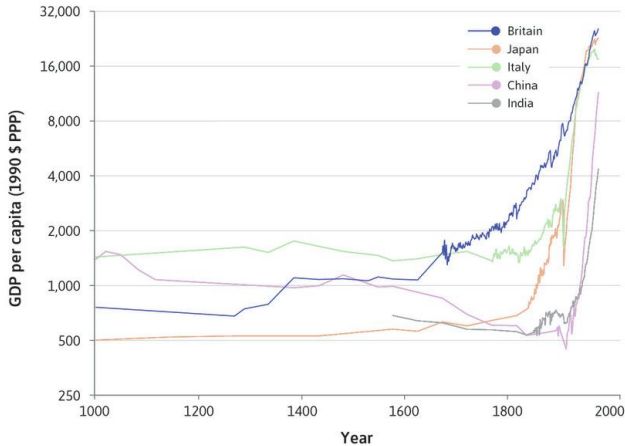
When sustained growth occurred it began at *different times* in *different places*.

- Countries like UK, Japan, Italy where sustained growth took place a century ago are now relatively *rich*.
- Countries that have experience growth recently are *getting richer*.

Countries that haven't taken off remain *poor* and are still in the *flatlands*.

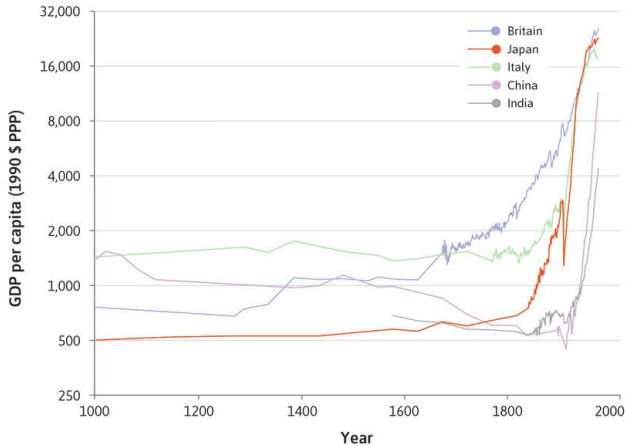
# GDP GROWTH RATES: BRITAIN

*Sustained growth in Britain since 1650 century*



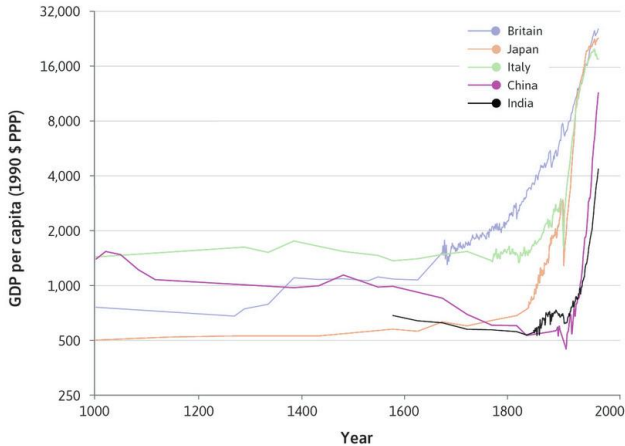
# GDP GROWTH RATES: JAPAN

*Sustained growth in Japan since 1870 century*



# GDP GROWTH RATES: INDIA, CHINA

*Sustained growth in India & China after 1960*

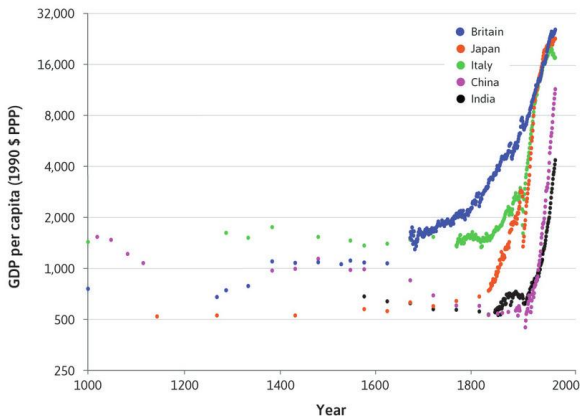




# “HOCKEY-STICK” GROWTH

*“Hockey-stick” growth: sustained rapid growth in some countries*

growth take-off occurs at *different time* for *different countries*



# THE TECHNOLOGICAL REVOLUTION

Britain in the middle of the 18th century

Remarkable *scientific and technological advances*

*at the same time*, there was a marked *improvement in living standards*

*Technological changes*: improvement in technology reduces work & time required to produce the things human society needs,

people produced more in a given time

—→ they earned more

—→ allowed significant *improvement in living standards*.

# THE INDUSTRIAL REVOLUTION

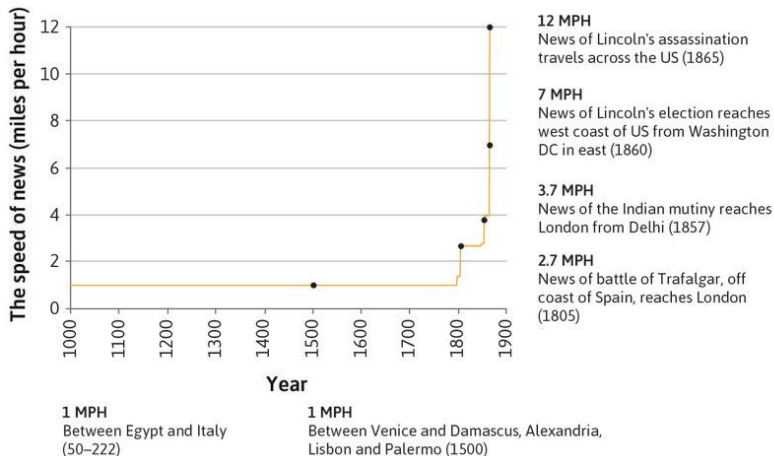
## *Industrial Revolution:*

*a wave of technological advances* starting in Britain in the 18th century, which *transformed an agrarian and craft-based economy* into a *commercial and industrial economy*.

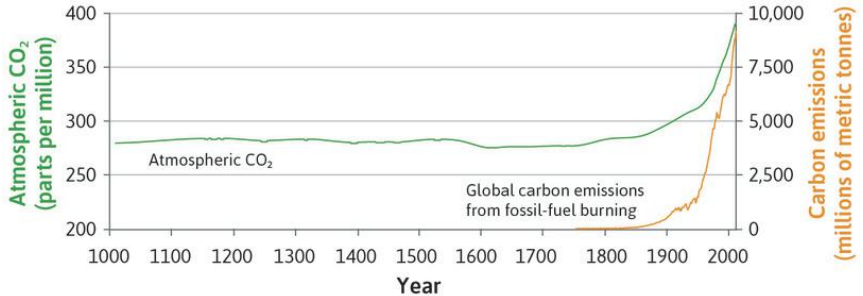
E.g., productivity of labour today in producing light is *half a million times greater* than it was among our ancestors around their campfire.

# TECHNOLOGICAL PROGRESS

*Speed at which information travels increased with technological progress*



# ENVIRONMENTAL CONSEQUENCES



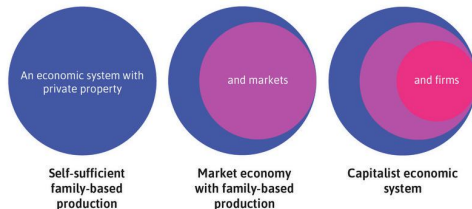
Increased production and population growth affects the environment

*Global* impacts (climate change) and

*local* impacts (pollution in cities, deforestation)

# CAPITALISM

*Institutions*: are the *laws* and *social customs* governing the production and distribution of goods and services.



*Capitalism*: an economic system where the main institutions are *private property*, *markets*, and *firms*.

# KEY CONCEPTS: PRIVATE PROPERTY

*Private property*: ownership rights over possessions

Types of private property

*capital goods*: the non-labour *inputs* used in production.

*products*: *output* produced

... does not include some essentials, e.g. air, knowledge

# KEY CONCEPTS: MARKETS

*Markets*: a way for people to *voluntarily* exchange products and services for their mutual benefit.

Unlike other types of exchange, **markets**

- are *reciprocal transfers*
- are *voluntary*
- usually there is *competition*



# KEY CONCEPTS: FIRMS

*Firms*: business organisation that uses inputs to produce outputs, and sets prices to at least cover production costs.

Inputs and outputs are *private property*

Firms use *markets* to sell outputs

The aim is usually to make *profit*

*Firms*, different from families and governments ...

... they rapidly emerge, expand, contract and exit.

# THE CAPITALIST REVOLUTION

Capitalism led to growth in living standards because of:

*impact on technology*: firms competing in *markets* had strong incentives to adopt and *develop new technologies*

*specialisation*: the *growth of firms* & the *expansion of markets* linking the entire world allowed historically unprecedented *specialisation* in tasks and production

Together with the technological revolution, this increased worker productivity.

# THE GAINS FROM SPECIALISATION

*Specialisation* increases productivity of labour because workers become better at producing things when they specialise

*learning by doing*

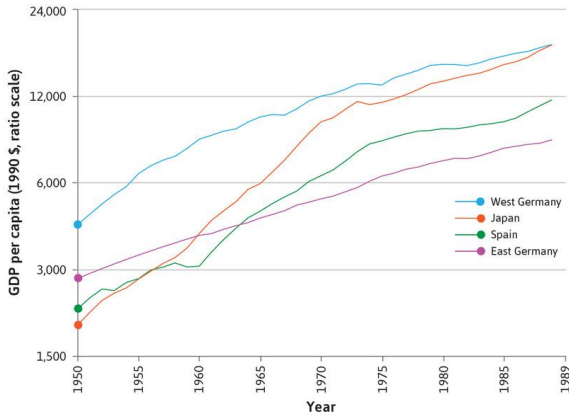
*worker have different skills and talents*

*economies of scale*

People can only *specialise* if they can stop self-production and obtain goods some other way.

*Capitalist society*: this is done via markets.

# DID CAPITALISM CAUSE HOCKEY-STICK GROWTH?



*Natural experiment:* Capitalist **West Germany** versus Centrally planned **East Germany**.

# DIVERGENCE IN GROWTH

Not all capitalist economies are equally successful

*Economic conditions:*

firms, private property, or markets may fail

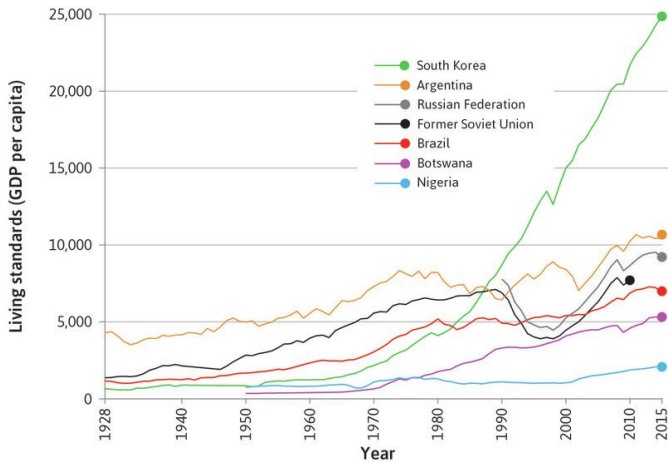
*Political conditions:*

capitalist institutions are regulated by the government

*Public Goods:*

the government also provides essential goods and services  
(infrastructure, education)

# DIVERGENCE IN GROWTH



*Different types of capitalist system*

# POLITICAL SYSTEMS

*Capitalism* coexists with many political systems.

A *political system* determines how governments will be selected, and how those governments will make and implement decisions.

In most countries today, *capitalism* coexists with *democracy*

- individual rights of citizens (e.g. freedom of speech)
- fair elections

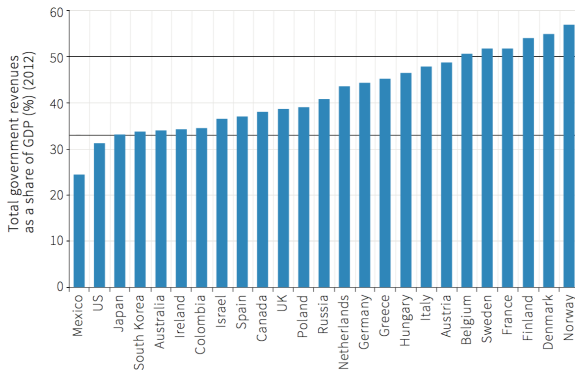
But capitalism has coexisted with *non-democratic systems*, too.

# THE ROLE OF GOVERNMENTS

*Versions of capitalism* depending on versions of *political system*

Government's role in capitalism changes with political systems

Share of government revenue in GDP (%), 2012





# SUMMARY

Important trends in economic variables over time

- *Income inequality* across and within countries has increased time
- Positive/Negative *consequences of sustained growth* in GDP
- Role of *technological progress* in these trends

*Capitalism* depends on *three specific institutions* and its versions vary across the world according to its underlying institutions

- These are *private property, markets* and *firms*
- Failure of these institutions can explain divergence in economic growth across countries
- Political systems and the role of government also determine the type of capitalist society