**Study/Discussion Questions:**

**What is Capitalism? Hunt vs Friedman**

Milton **Friedman and** E.K. **Hunt** (our text) offer contrasting views on the fundamental nature and functioning of capitalism. Please keep these competing understandings in mind to describe the general positions you think Friedman and Hunt would most likely take on the following questions or issues. Note that there are not crystal clear answers to these in the short pieces I’m asking you to consider but I want you to think through them and develop a hypothesis based on your reading and reasoning.

1. Are most individuals or families capable of producing for themselves? Why or why not?
2. Will there always be mutual gains from voluntary and informed exchange?
3. Is private property ownership an important feature of capitalism? In all things or just some?
   1. Is private ownership more useful/constructive or more harmful/destructive - why and for whom?
4. Is the concept of different “modes of production” useful? Why or why not?

People finding this concept useful offer examples (slavery/feudalism/capitalism) and argue these “modes” consist of distinct *forces of production* and *social relations of production*.

1. Is the notion of a “surplus” useful? If so, what does it really mean and how is it useful?
2. What seems to be the dominant “unit of analysis”? (e.g., individual, community, class, society)
3. What is the proper or best role for government? Why?
4. Does capitalism tend to function through and foster freedom & liberty or coercion? Why?
5. Is capitalism best characterized as a system of harmony/cooperation or conflict/struggle? Why?

10) On a slightly different but related topic, what is the critical element in Friedman’s view of the fundamental nature and functioning of capitalism that allows Mankiw to assert that economics can claim to be a science? Explain your reasoning.

Friedman: Every family could produce for themselves. As long as there is a mutual exchange, it could possibly be a capitalist economy.

**Study/Discussion Questions: Adam Smith**

**1)** Hunt argues that Adam Smith developed “a complete and relatively consistent abstract model of the nature, structure and workings of the capitalist system.” What is meant by a “model” of the economy? What sorts of things would a model of the economy seek to explain?

1. **Adam Smith was providing the recipe for a proper economic system through his books. His books addressed the important interconnections between the major social classes, the various sectors of production, the distributions of wealth and income, commerce, the circulation of money, the processes of price formation, and the process of economic growth.**
2. **It is a description of how a working capitalist system should look like and work.**

**2)** Describe some of the major similarities and differences between a capitalist economy and a feudal economy. If possible, pay particular attention to the *forces of production* and the *social relations of production*.

1. **Feudalism involves aristocracy and vassals, while capitalism is privately owned and operated for profit.**
2. **The obligations and relations between lord, vassal, and fief form the basis of feudalism, while profit is the main goal of capitalism.**
3. **In capitalism, the lower classes have the freedom to demand from the employer.**
4. **Capitalism does not have lords.**
5. **Similarities: In both economies the social relations of production is dependent on the forces of production (i think).**

**3)** The shift to mechanized production described on pp. 41-2 would have involved a large expenditure on the part of owners of those new means of production. Yet Hunt says, on p. 42, “Entrepreneurs in many other industries saw the possibilities for larger profits if they could increase output and lower costs.” In what sense could costs have been *lower* with a production process that required a greater expenditure on capital? Explain. As increasing numbers of entrepreneurs sought higher profits through more mechanized production techniques, what would this process most likely have done to profits and the price of the output produced? Why? [This is useful to understanding an important aspect of the “invisible hand” and model of competitive markets.]

1. **Increasing output and lowering costs could potentially increases the amount of consumers.**
2. **The first investment is huge, but it's a one time deal and it means that you don't have to buy as much labor to make whatever it is you're producing. So the investment pays for itself, quickly.**
3. **You don't have to pay as many people to make something and because you can make more things more quickly, you can afford to sell them more cheaply, therefore the price of goods goes down but not your profits.**

**4)** What was Smith trying to explain with his theories of history and sociology? Why would he see that as important?

**5)** Hunt asserts that Adam Smith was one of the first to appreciate that “the three principal functional categories of income…corresponded to the three most important social classes in the capitalist system of [Smith’s] day.” What are those categories of income and the three corresponding social classes? Does Smith’s argument about “functional categories of income” and classes seem like a useful way to understand the society we live in today?  Do you see divisions in today’s society that echo those that Smith saw? Explain your reasoning.

1. **The three categories of income are: profits, rents, and wage.**
2. **The three corresponding social classes are : capitalist, landlords, and free laborers.**

**6)** What, according to Smith, was “the most important determinant of any society’s social institutions as well as of the personal and class relationships among its members”? What did Smith identify as the “four distinct stages of economic and social development”? Explain the particular significance of cattle in his analysis.

1. **Hunting: “The lowest and rudest state of society, found among the native tribes of North America. There is no ruler or common wealth( and independence community) because the economic basis for privilege and power are lacking.**
2. **Pasturage: The economy supported larger social groupings. Their production was based on the domestication of animals. The significance was that it became the first form of property relationship because of this there was need of establishing institutionalized protection of privilege and power.**
3. **Agriculture: Societies permanently settled in one are Agriculture became the most important economic activity. Ownership of land became the most significant property relationship in differentiating classes according to their privileges and power. Having land made you have political and social power. So society was divided into the ruled and the rulers. Smith believed that two features of agricultural society were particularly important. 1. Wealthy nobility were strictly controlled in how they could use their wealth. 2. It involved the control of absolute power by nobility, with very little freedom existing for most society. The extension of rights and increase in the freedom for most produces were thought to be the most important created by the advance to the highest or commercial state of society.**
4. **Commerce: Medieval lords permitted growth in independent cities because of the rents and other benefits that they could derive from the cities. In the cities, a new political atmosphere evolved in which produces enjoyed more freedom than they had an any previous state of social development. Also, there was a wider extension of the rights of property which permitted producers the aspire to create wealth from themselves rather than for an overlord. Creating the commercial staged it created capitalism by creating markets where the feudal lords could exchange their agricultural surplus for manufactured goods. of a way to acquire wealth.**

**7)** In terms of “social institutions” Smith focuses a lot on property rights and the laws and structures that protect those rights. What did he argue was one of the reasons that “civil government” was instituted? Try to find the precise words he used to express this reason. Does this seem like a useful description of the role and functioning of government currently in the United States? Explain your reasoning.

1. **Their greater wealth enabled them to hold out much longer in industrial disputes; they could maintain manipulate and control public opinion; and they had the incalculable advantage of having the government (which, it will be remembered, was “instituted for the defense of the rich against the poor”) on their side.**

8) What, according to Hunt, is “the theme that pervaded Smith’s writings”? Explain. Think of an example that would help illustrate what Smith means. In what way(s) might this theme be related to the modern-day production of a t-shirt?

9) According to Smith’s analysis, how would a society in which the workers (hunters) themselves control the means of production differ from one in which a small class controls the means of production and employs others to do the work? In what general way did Smith think prices would vary in these two different “modes”?

1. **Prevent coercion**

10) Income distribution and the extent of inequality is one of the major themes we are developing this term. What was Smith’s view of the forces and processes that determined wages and profits in the economy he was observing? What would Smith’s broad analysis of income distribution seem to imply about the basic sources of economic inequality in contemporary capitalism? Explain.

1. **people should get paid for what they produce, better if money goes back to capitalist they can invest and rise the conditions.**
2. **negotiating between workers and capitalist for their wage.**
3. **Labor at the root → bargaining power. Wages and profits determined by struggle over surplus**

11) In reading Smith’s description of capitalism, and especially the struggle between capitalists and laborers (48-49), what are some of the sources of the superior bargaining power of the capitalist class? Explain. What position might Friedman and Hunt take on this “struggle”? Explain. To the extent that you accept that capitalist and laboring classes exist today, do capitalists still have the same kind of power that they had in Smith’s time?  Why or why not?

1. **When a small social class controls the means of production it acquires the power through its property rights, of preventing the worker from producing unless it received a share of what the worker produced. Whereas in a market society where land and capital had not come to be owned by separate classes that is, a society workers themselves controlled the means of production, “the whole produce of labour belongs to the labourer.**
2. **Once a society reaches commerce level, prices will decrease due to efficiency and a surplus will accrue because of the greater efficiency brought on by specialization.**

***Part of what Smith tried to do as he analyzed capitalism was explain what determined the exchange value or price of the goods/services sold in markets.  This kind of explanation is called a “theory of value” and competing theories of value are fundamental to the ideas we will be exploring this term.***

12) Smith differentiates between “market” prices and “natural” prices.   What is the distinction?  Which type of prices was Smith trying to explain with his theory of value?

1. **The market price was the actual commodity price that existed at any particular point in time in a particular market. He believed that it was regulated by the relationship between the amount of the commodity that the sellers wished to sell and the quantity that buyers wished to buy at various prices. Market price is determined by the forces of supply and demand.**
2. **The natural price was that prize where the proceeds of the sale were just sufficient to provide the landlord, the capitalist and the workers with rend, profit, and wages equivalents to the ordinary or socially average rates of rent profits and wages.**
3. **Natural price=wages+rents+costs of capital. Basically everything that went into producing the product**

13) What was the “adding up theory of value” and what shortcoming does Hunt identify in this theory? Explain.

14) Hunt asserts that “only two theories of price have really succeeded in breaking out of this circularity and explained all prices on the basis of an external determinant” (53). Use plain language to explain what Hunt means by this and which “two theories” he identifies as solving this circularity.

15) Smith argues that (in the “early and rude state” of a nation of hunters) if it “costs twice the labor to kill a beaver which it does to kill a deer, one beaver should naturally exchange for or be worth two deer.” Explain how Smith could possibly assert such a thing even if, in this example, people really like deer and don’t care that much for beaver so that the price of deer is actually higher than the price of beaver. Explain how the concepts of “market price” and “natural price” might be useful in your explanation.

16) Explain the underlying logical difficulty that moved Smith away from a labor theory of value and toward what Maurice Dobb called an “adding-up” theory of value. That is, exactly why did Smith think that prices would not reflect labor values in a capitalist economy? Explain. What example did Smith offer to make the argument that prices do not reflect use-value or utility? Briefly explain.

17) Why is it important to explain the determinants of prices?

18) Smith’s arguments were clearly normative in that he tried to analyze the economic and social forces that would best promote human welfare. In the end, he argues that “the obvious and simple system of natural liberty,” is the best possible economic system (57). Outline major elements in his argument about the “invisible hand” (though he uses this term only once in his massive work). What is another common term for this “obvious and simple system of natural liberty”? (Laissez-faire)

* **The invisible hand of the free market will transform the individual’s pursuit of gain into the general utility of society. This is the invisible hand argument. It is common practice in the business world today to justify pursuing profits and self-interest.**
* **The unobservable market force that helps the demand and supply of goods in a free market to reach equilibrium automatically. – The invisible hand**
* **Smith explained that an economy will comparatively work and function well if the government will leave people alone to buy and sell freely among themselves. He suggested that if people were allowed to trade freely, self interested traders present in the market would compete with each other, leading markets towards the positive output with the help of an invisible hand.**

**In a free market scenario where there are no regulations or restrictions imposed by the government, if someone charges less, the customer will buy from him. Therefore, you have to lower your price or offer something better than your competitor. Whenever enough people demand something, it will be supplied by the market and everyone will be happy. The seller ends up getting the price and the buyer will get better goods at the desired price.**

19) Smith’s analysis seems ambiguous, if not even a bit schizophrenic. Discuss some of the ambiguity that Hunt identifies in Smith’s treatments of 1) social harmony vs. class conflict in capitalism, 2) expected outcomes from an extremely limited role of government, 3) the division of labor in capitalism and 4) the role of property rights in capitalism. Do you see any other areas of ambiguity as portrayed in Hunt’s chapter? Explain. If you had to speculate, what factors would you identify as contributing to this ambiguity in Smith? Explain.

market orientated productive commodity: producing good to sell to market and not for oneself.

**You spend your times focused on production so you can sell or get paid and then you can buy the things you want.**

**Private ownership of property: The things you need to produce with. connected to land and machinery yo need to produce. The important part is that if it's your property you can put up private property signs but people can use it if they accept a reasonable wage.es**

**Smiths talks about that people had access to the stuff they needed to produce but then it came into the hands of other people and now that need a job. They sell their labor to survive.**

**buying nicest things at the lowest price?**

**Utility theory v labor theory: Value theory and prices: what is it that determines the price of a good or service: hunt says the price of a good will be cost of labor tools profit, not theory of price because its another price.**

**Equal & Rate**

**Self interest part of the invisible hand: Essential Adam Smith argues that people only care about making more money it's an illusion and it will bring happiness so it drives what we do.**

**Water Diamond Paradox**

**natural price reflects amount of labor/ willingness to pay**

**priced can’t reflect utility: Smith**

**September 20, 2017**

* As P Increases, Q demanded increases and Q supplied decreases.
* **Natural Price** - neither more nor less than what is sufficient to pay the rent of the land, the wages of the labor, and the profits of the stock employed in raising, preparing, and bringing it to market, according to their natural rates

**Supply and demand WS solutions**

**3. Market Prices** are prices that eliminate shortages/surpluses and yield quantity supplied equal to quantity demanded. Shortages tend to up price and surpluses tend to reduce price and buyers & sellers responding in self-interests ways to these price changes eliminate shortages and surpluses. Market price was 40 for beaver and 80 for deer.

4. They are NOT natural prices. It takes twice as long to produce a beaver yet they sell for half as much. Selfish trappers will get out of the beaver market and start hunting deer. Entering deer, hunters will increase the number of deer people are willing & able to sell at every price and reduce the number of beaver for sale at every price. The shift will create a surplus of deer and shortages of beavers. Those surpluses and shortages will move the prices.

7. According to Hunt, this is not a capitalist economy because people are able to produce and sell commodities for themselves rather than being limited to selling their ability to work (labor power). This might be considered a (market-oriented) commodity-producing economy.

* Friedman will argue yes because there is a mutual exchange that is going on and both sellers and producers are gaining.

**September 22, 2017 In Class Notes**

* Malthus
  + Important because he is beginning to articulate the … of Capitalism
  + Its all beneficial mutual exchange (makes that Friedman argument).
  + Malthus has no interest in looking at History
  + Thinks differently from Smith.
  + He says, to produce anything you need tools, you have pay the person that needs the tools. You need land – land can be a factor of production.
  + Defending landlord interest
  + Asserts that your income depends on the choices you make.
* Two contributions:
  + Theory of population
    - Serves class interest
    - Serves ownership interest
    - If you try to assist the poor, you only make circumstances worse
      * They have no moral restraint
      * If you pay them too much, they will sit back and will stop working.
    - We should never redistribute to the working class and redistribute to the landlord class otherwise it will cause a recession or a “glut”
  + Theory of Gluts/Recession
    - Like smith he says, to prevent recession, all of the income that is made in a year should be spent on goods and services that same year. The total dollar value of goods and services is equal to the income that is earned.
      * Three classes in the economy have to spend what they earn.

**Malthus Reading:**

* Critiqued **Godwin** (socialist kinda thinker… education was key to abolish bad things…Capitalists controlled government) and **Condorcet** because the argued that the capitalist class had too much control and they needed to be reduced of power through government regulation of credit.
* Lacked Smith’s appreciation of history
* Two themes in his first *Essay*
  + No matter how successful reformers were in their attempts to alter capitalism, the present class structure of wealthy proprietors and poor laborers would inevitably reemerge. Class division was inevitable consequences of ***Natural Law.***
  + Second, poverty and suffering were the inevitable lot of the majority of people in every society.
* Attempting to alleviate the poor and suffering would only make things worse.
* The ***population theory*** on which he based his conclusions were simple
  + He believed that most people were driven by an insatiable desire for sexual pleasure and that consequently rates of reproduction, when unchecked, would lead to geometric increases in population.
  + Population was limited by the amount of food in a given territory. (first check)
  + The population was always checked by some combination of many other *checks*
    - Preventive checks: Reduced the birth rate; sterility, sexual abstinence, and birth control.
    - Positive checks: Increased the death rate; famine, misery, plague, war and the ultimate check of starvation.
  + If preventive checks were inadequate, then positive checks were inevitable; and if there was an insufficiency of disease, war, and natural catastrophes, then starvation would always check population growth.
  + If income and wealth of everyone in society were increased, the vast majority would respond by having more children, making things worse!
    - Only the people w/ “***moral restraint***” would endure this.
  + Where ***moral restraint*** was absent, population would be checked by either vice or misery.
* Rejected all schemes that would redistribute wealth or income.
  + Such distributions would increase the population of poor workers and push them all back to subsistence.
  + Only make things worse for the poor class
* **Economics of Exchange and Class Conflict**
  + Capitalist vs Landlords
  + Adopted the ***exchange*** or supply and demand vantage point.
    - This vantage point takes for granted existing laws of ownership and the existing distribution of property rights.
    - The ***production vantage point*** (labor theory of value) on the contrary, considers these as elements of the economy to be explained by the theory and generally sees them as the legal manifestation of class division.
  + Like Smith, Malthus believed that the quantity of labor commanded was the best measure of value.
  + Whereas Smith had defined wealth as the produce of labor, Malthus defined wealth to be material objects, necessary, useful, or agreeable to man, which voluntarily appropriated by individuals or nations.
  + Capitalist’s machinery and tools contributed to production and therefore Smith was wrong when he said that Capitalist did not contribute to production.
    - Smith’s point however was that tools and machinery were simply the present embodiment of past labor exertions.
  + Unlike Smith, who saw labor as the only absolutely necessary social cost of production, Malthus argued that wages, rent and profits were all equally necessary.
  + Malthus did no believe that the market forces of supply and demand would necessarily move the market price toward the natural price.
  + Landlord’s rent contributes to production!
  + ***Rent*** is the natural result of a most inestimable quality in the soil, which God bestowed on Man—the quality of being able to maintain more persons than are necessary to work it.
  + Concluded that high profits, economic prosperity, and population growth were generally the forces that led to increased agricultural production.
    - Increased agricultural production brought less fertile land under cultivation and thereby increase rents. Therefore, *high rents* were both the result of and the best single indicator of general economic and social prosperity.
* **Theory of Gluts**
  + Not enough demand and not enough effective demand.
  + Insisted that the market forces of supply and demand did not automatically push the market price toward the natural price.
  + The necessary condition for effectual demand to equal the value of all commodities produced was that the three classes, taken together, had to be willing and able to spend all of their collective income on the commodities produced in each production period.
  + Saving -> invest = spending
  + Saving -> hold = not spending (bad)
    - Two ways in which income could be spent:
      * Acquisition of commodities for consumption
      * Acquisition of commodities that were accumulated as capital
  + Classical economists defined saving as that income remaining after expenditures for consumption have been deducted.
    - For all income to be spent, the expenditures for commodities to be accumulated as capital would have to be equal to the amount of income that was saved.
  + Aware that depressions and could and did happen while Smith and other economists argued otherwise.
  + The general cause of a general glut of commodities was the periodic insufficiency of effectual demand.
    - Laborers of necessity spent all of their incomes on their subsistence. Capitalists were driven by a passion to accumulate capital and had neither the inclination nor the time to spend much of their profits on consumption or personal services.
    - Landlords, however, were gentleman of leisure. Their continual income from rents, allowed them to spend their income on comfortable surroundings, servants, and patronizing the arts, universities, and other institutions of culture. Spent their income on consumer goods.
  + If the rate of capital accumulation was to suddenly increase, the size of the mature labor force could not suddenly increase.
  + Solution: pursue policies that would alter the distribution of income, leaving the capitalists with lower profits and some other call with more income to spend on consumption!
    - Landlords alone could not consume that excess material produce. Hiring large numbers of servants and other unproductive laborers or providers of personal services, who would spend their incomes the the material commodities produced in the manufacturing sector. Eliminate the problem of inadequate aggregate demand.
  + Corn laws, redistribute more money to the landlord class.
* **First Section**
  + Industrial revolution
  + Poor grew poorer, middle and rich grew richer
  + Poor paid the social costs in terms of the sacrificed consumption that was necessary for industrialization.
    - Dependent on the market conditions for their livelihood
    - Did not have much freedom to rest or play
    - Pace of work was decided by the machine
  + Luddite Revolts
    - Workers protesting breaking machines and factories.
    - Bunch of them got hanged or deported.
  + Women and children were employed but where paid way less and worked in harsh conditions
    - Basically treated like slaves.
    - Dehumanizing work conditions
  + Capitalists had the control
  + Combination act of 1799 prevented worker unions

**DQs Malthus:**

1) Capitalists paid/wrote the checks for the construction of factories and owned the (new)

industrial capacity emerging in the industrial revolution so explain what Hunt can possibly mean

when he argues that workers “paid the social cost … that was necessary for industrialization.”

What costs did workers pay and why? Explain.

2) Hunt fusses a great deal regarding the sacrifices the working class made during (and shortly

following) the industrial revolution. What sort of argument does he make to explain or

substantiate these sacrifices? Are all these sacrifices solely related to standards of living or does

Hunt identify other forms of sacrifice by workers during (and shortly following) the industrial

revolution? Weren’t these sacrifices inevitable? Do you tend to believe low pay and tiresome

work are inevitable plight for large numbers of people in every society? Why or why not?

3) Who/what was the target of the spontaneous worker revolts, such as the Luddite revolt? Was the target justified? Explain.

4.Why did the landlord and capitalist classes clash over the regulations surrounding the import

of foreign grains? Explain. How was this conflict situated at the foundation of a monumental?

argument over the future of European trade? Explain.

a )

5. Explain (just) the basic elements in Malthus’s “theory of population.”

a) Most people were driven by a desire for sexual pleasure and that consequently rates of reproduction, when unchecked, would lead to geometric increases in population; specifically, population would double at each generation.

6. What are the two categories of population checks Malthus describes in his theory of

population and why are they necessary?

a) ***Preventive checks: Reduces the birth date: these included such things as sterility, sexual abstinence, and birth control.***

b) ***Positive checks: Increased the death rate; these included famine, misery, plague, war, and the ultimate inevitable check of starvation.***

7. We have explored arguments concerning the role and function of values in economic analysis.

In fact, in the decade Malthus died economists are beginning to argue that economists should

limit themselves to “the nature of production and wealth [that] are universally true” and “not add

a single syllable of advice” (142). Identify any core values/beliefs that seem to influence

Malthus’ economic analysis. Explain.

8. It is often easier to look back to important theorists and see the ways that their

ideas/arguments can be linked to class interests. With which class did Malthus seem to most

closely identify? How could major arguments he made be used to benefit this class? What sorts

of policies did he recommend and how would they benefit his favored class? Explain.

a***) Malthus clearly identified most closely with the landlord class, and he wanted to protect them from the poor. That is why he had absolutely no reservation about killing poor people and enshrining the capitalists the most virtuous members of society. He also considered their position in society to be the most important because they supply the population with food, which is its principal limiting factor, and by doing so are responsible for the demand that rescues the economy from gluts.***

9. Who were Condorcet and Godwin and whose class interests did their arguments seem to

benefit? What kinds of arguments were they making? What sorts of policies did they recommend

and how would those policies benefit their favored class? Explain.

10. Provide a general discussion of Malthus’ theory of rent. Explain how and why he argued for

the significance of rents in his society/economy.

a) ***Malthus's theory of rent was that the worth of a piece of land was proportional to its fertility and its ability to support more people than were necessary to tend it. As a society became larger, it would have to make use of less and less fertile land to feed its population. To cause less fertile land to produce requires more effort and more resources, therefore it causes the cost of agriculture to go up. Fertile land, however, would produce a surplus because it would produce a greater bounty more cheaply, producing a surplus. It is this surplus that is the basis of rent. This had more important for society than profits according to Malthus because land produced food, which the society needs to survive. The more food is available, the more people a society can support, and the more people there are, the greater demand becomes. Demand was the instrument of glut prevention, according to Malthus, so having as much demand as possible was fundamentally important to the preservation and good function of capitalism.***

11. Malthus criticized Smith’s view that labor was the only necessary social cost of production.

While Smith talked of labor as the “sole purchase price” of goods, Malthus wrote that “It is not,

therefore, correct to represent as Adam Smith does, the profits of capital as a deduction from the produce of labor.” Malthus particularly objected to Smith’s description of landlords as “loving to reap where they have not sown.” Explain the fundamental differences that underlie these competing points of view, paying particular attention to a) contrasting “vantage points” and b) what is taken as “given” (or unalterable) in each argument.

a) ***Malthus believed that landowners would behave similarly to laborers and capitalists in that they would be bound by the forces of supply and demand; they could only make as much money as demanders were willing to give them. Smith believed that labor was the source of all value, so in that sense he didn't believe that landlords really contributed anything to the value of a product, but they still require compensation, hence they reap where they did not sow. Malthus, on the other hand, saw land as an integral part of value and one of the most important contributions one could make to society, therefore the idea that the landowner was not contributing enough to the production process to merit such generous compensation would have offended him greatly.***

12. Regarding Malthus’ theory of gluts or recessions, what condition did both Smith and

Malthus think must hold in order for all good produced to be purchased (that is, for “effectual

aggregate demand” to equal the value of all goods produced)? Explain. Try to develop a diagram

that could be used to help frame this discussion.

a)  ***Because the component costs of the natural value of all commodities also represented the incomes to the three classes in society, it followed that, in any given period, the total costs, making up the aggregate natural value of all commodities produced, had to equal the aggregate income accruing to the three classes for that period. Therefore, the necessary condition for effectual demand to equal the value of all commodities produced was that the three classes, taken, together, had to be willing and able to spend all of their collective income on the commodities produced in each production period.***

***People had to spend everything they earned in a year.***

13. How did Smith argue there would never be an insufficiency of effectual aggregate demand?

Explain.

a) ***Smith argued that there would never be an insufficiency of effectual aggregate demand because in either scenario where a person saved--"a person could accumulate capital that would return the original saving plus a profit, or her or she would lend it to a capitalist in return for a portion of the capitalist's profits, paid as interest"--they would turn out with a profit that wouldn't go away, effectively creating an aggregate demand that would continue.***

14. How did Malthus argue there would be repeated cases of insufficiency of aggregate demand? Which class did he believe was responsible and why? Explain.

a***) Malthus argued that "laborers of necessity spent all of their incomes on their subsistence. Capitalists were driven by a passion to accumulate capital and had neither the inclination nor the time to spend much of their profits on consumption on consumption or on personal services," and that "landlords...were gentlemen of leisure." He argued that all three classes tried to spend all of their income, but blamed it mostly on the capitalists, who attempted to spend all of their profits for more capital. They were effectively the root of the problem in that they would acquire so much income that they would not be able to make any more profit off of it.***

15. Malthus cited imbalances in the circulation of money and commodities as the cause of

prolonged recessions or gluts: a) Briefly summarize his arguments and the policy he

recommended to ameliorate gluts. b) Briefly summarize Ricardo response to this argument and

the way he mocked the policy recommendations of Malthus. Finally, c) explain Hunt’s argument

that both authors appreciated “one horn of the dilemma in capitalism but ignored or denied the other.” That is, what is this central dilemma or contradiction and which aspect did each writer recognize and/or ignore? Explain.

1. ***Malthus → Corn laws will alleviate gluts: keep grains out so that rents increase. Increase in rents will be good for landlords because it'll contribute to aggregate demand, hire servants who add to consumption, and capitalists will be able to sell more***

***Ricardo → Mocks Malthus' plan: Brilliant idea, but has an easier way. Burn down capitalist’s warehouses. Set fire to product, so that there won't be insufficient demand. Pointing out that increase rents cut into profits, just as much as increased wages do.***

***Hunt → Dilemma: every single capitalist must cut costs in order to reach equilibrium. Their cutting of costs contributes to recessions.***

16. Throughout his text Hunt argues that the bias or values that theorists bring to their work are often revealed in rather obvious logical errors. He asserts that Malthus makes such errors in his proposals to alleviate gluts. Explain key elements in Hunt’s argument about this for Malthus

a) ***Errors: Make rents go up (won't really transfer to working class) in order to redistribute to landlords, but capitalists will never allow wages to increase because it'll cut into their profitability. Sure consumption will increase, but capitalists will fight it. Increase rents through corn laws. Capitalists will actually dislike both because they'll both decrease profitability. It's the same distribution to increase rent as it is to increase wages.***

b) ***Because the categories of class income were identical to the three components of the cost of production, any political measure, such as the corn laws, that resulted in an increase of either rents or wages would have the effect of lowering profits. Malthus correctly assumed that the objection that the capitalist had against reforms to reduce profits by increasing wages were identical to the objections they had against reforms to reduce profits by increasing rents.***

17. What does Malthus seem to identify as a fundamental cause of the distribution of

income/wealth (and poverty) in the economy he was observing? Do you detect any similar

arguments in current discourse about the existence of poverty or distribution of wealth/income?

**Ricardo Reading**

* Defender of the Capitalist class.
* Supported Malthus but had different views on the issues of *theory of value* and Malthus’ *theory of gluts*.
* Defined *rent* as that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil.
  + Two assumptions
    - Land differed in its fertility and that all lands could be arrayed along a spectrum from the most fertile to the least fertile
    - Competition always equalized the rate of profit among the capitalist farmers who rented land from the landlords.
  + Net produce was the total quantity produced minus all of the necessary costs of production, including the replacement of capital used up in production and the wages of workers. Net produce is the total of the surplus value, created by labor, which could go-to either profit or rent.

**Ricardo Discussion Qs**

1) Much of Ricardo’s theory of rents and profits hinges on the idea that competition would equalize rates of profit for all capitalists. Briefly explain why Ricardo believed (as did Smith and Malthus) that this would be the case. Given these views, what aspects in an economy might prevent this equalization of profit rates? Explain.

* ***The more lands there are the lower the rate of profit will be. Capitalist farmers will try to bid and compete to get the lands that produce the higher rates of profit; this will reduce the rate of profit. Capitalist farmers will bid up until the prices of the high profit land prices matched the price of the less desirable land.***

2) Ricardo argued that the rate of profit in the economy “depended solely on the productivity on the no-rent land.” Explain the argument he makes in reaching this conclusion.

* ***The productivity on the no-rent land, or the land so crappy the landlord can't ask anything for it, determines the profits everywhere else, because the rent will get bid up everywhere else until it is equal to that on the no-rent land. The no rent land sets the standard for profits.***

3) Ricardo argued that “the interest of the landlord is always opposed to the interest of every other class in the community.” a) Explain his reasoning. b) Malthus argued that high rents were “the result and best indicator of general economic prosperity.” How did Malthus reach this conclusion? c) Which argument do you find more compelling? Why?

* Interest of Landlords oppose the interest of every other class.
* High rents to Malthus were good because more land equals more unproductive workers.

4) Briefly explain the underlying source of payments for “rent.” I know most of you have not had courses in Microeconomics, but the text I used recently explained that LeBron James was earning “Ricardian rent.” Explain what that means and link it to Ricardo‘s theory of rent. The text also discussed “rent-seeking behavior” as a type of “market imperfection.” Explain what that might mean and how it can be linked to Ricardo‘s theory of rent.

*(5-9) LTV Explanation, Critiques and Responses*

5) Briefly explain the basic meaning of the labor theory of value (LTV). What reason(s) did Ricardo offer for adopting a LTV? Explain. What is troubling about the LTV for theorists who (wish to) emphasize the harmony of capitalism? Explain.

* ***Amount of labor reflects prices of commodities.***

6) Did Ricardo think the LTV could explain all prices? Explain. Did he seem to care? Why or why not?

* ***LTV will not reflect non freely reproducible commodities such as rare statues, scarce books and coins.***

7) The LTV argues that the quantity of labor required to produce output (“labor embodied”) is the ultimate determinant of prices. Explain what Ricardo had to say about the problem that different qualities/skills of labor presents for the LTV.

* ***Skilled labor was itself created by the exertions of labor. Skilled labor could thereby be reduced to a multiple of simple unskilled labor in calculating the total labor embodied in a commodity.***

8) Since Ricardo argued that prices would reflect labor embodied, did he think that a producer could raise the price for his/her good simply by taking more time to produce it? Explain why or why not.

* f

9) How did Ricardo respond to the obvious criticism that the LTV fails to account for the dramatic increase in productivity made possible by capital (machinery and equipment)? Explain his thinking and link it to his “estimating the exchangeable value of stockings, for example.”

* ***Ricardo said that capital is ultimately reducible to the labor that went into making the capital. For example, the value of the cloth made with a loom is really the value of the labor put in by the weaver and the labor that went into making the loom in the past. Therefore, it is not the capital that adds value to the product, but the labor that went into making the capital that adds to the value.***

10) Ricardo argued that in the “early and rude” state of nature, hunters earned wages for their labor time and profit on the tools that they produced and used. What do you imagine Smith might have to say about hunters earning “profit”? Explain your reasoning. Given Hunt’s arguments about “tools” vs “capital” what do you think Hunt might have to say on this matter? Explain.

11) Ricardo also wrote that “nothing is paid for the use of air, of heat, and of water, [so] the assistance which they afford us adds nothing to value in exchange.” Is it conceivable that air and water could ever be considered “factors” of production deserving of compensation (as Malthus thought was the case for land)? Explain your reasoning.

12) Would a lack of profit necessarily subvert any hope for “investment” that increases productive potential? Explain why you think it does or does not. What does history seem to indicate on this matter?

13) Carefully explain Ricardo’s argument that gluts are impossible. Did his argument seem to serve the interests of any particular class? If so, which one? Explain. The currently dominant view is that “gluts” are attributable to misguided monetary, or government, policy. Might this serve particular interests? Explain your thinking.

14) Explain Ricardo’s argument(s) about the introduction of new machinery and its impact on workers. Explain the way he changed his mind on this matter. Who gains and who loses from the introduction of machinery in his early view? Why? Who gains and who loses in his later view? Why? Do his arguments have modern-day applicability? Explain your thinking on this question.

Related to excerpt not yet read→ Exports in Famine Times

15) Briefly explain Ricardo’s arguments about comparative advantage and international trade. Hunt argues that Ricardo, like Smith, applied both the production/class conflict perspective and the exchange/social harmony perspective in his writings and that elements of Ricardo’s analysis of international trade reflect an exchange perspective. What element(s) reflect this exchange perspective and what criticism does Hunt make about Ricardo’s argument that “any restriction of trade must reduce the sum of enjoyments”? If you are able, explain Hunt’s criticism by linking it to Exports in Famine Times.

October 6, 2017

* A premium you pay because there is something about it that is not freely reproducible.
* Corn laws force us to cultivate more land; reduces profit and increases rent.
* Rent is paid for a reproductive advantage.
* Ricardo says LVT holds in capitalism.
* Nobody produces or earns unless they want something. You are never going to hold on to money – Ricardo.
* Self interested people tend to move from a struggling industry to a prosperity industry. There should be no government intervention – Ricardo.

October 9, 2017

* What is important in this chapter is the overlap; not the distinctions. There are distinctions but that’s not as important.
* B accepted invisible hand, laisse faire arguments

**Rationalist Subjectivism Reading**

**Vocab used**

* A commodity has
  + A *value*, *use value (utility*), *exchange value* (other commodities it can be exchanged for), and a *price*.
* *Marginal Utility* – the benefit gained from consuming one additional unit of a good or service (5 waters vs 50 waters example).
* Utility – measurement of “useful-ness” that a consumer obtains from any good. (how someone enjoys a movie, or the sense of security when somebody buys a deadbolt).
* Frugality – the quality of being economical with money or food.

**Jeremy Bentham on Utility (Utility Theory of Value)**

* Asserted that all human motivation, all times and all places can be reduced to a single principle: the desire to maximize one’s utility.
* His principle of utility can be restated as “all human activity springs from the desire to maximize pleasure.”
* It is by the degree of the value that wealth is measured
* Smith rejected the notion that utility could be systematically related to exchange value.
  + Ricardo, Smith and Marx all realized that commodities had to have use *value* in order to have *exchange value*, they did not believe that one could find a scientific explanation of the magnitude of *exchange value* by examining a commodity’s use value.
* Rejected Smith’s water and diamond example by arguing that it was not the total utility of a commodity that determined its exchange value, but rather its marginal utility, that is, the additional utility derived from a small, marginal increase in the commodity.
* First advocated for laissez faire but then like Malthus, Bentham came to see that saving did not always mean investment
  + Unproductive saving would lead to decreased prices and production; profits would decline and so would investment.
  + Lessen the socially harmful effects of great inequalities of wealth and income.

**Jean-Baptiste Say**

* Considered himself to be a disciple of Adam Smith.
  + Trying to correct minor errors that Smith had
* The price, or exchange value, of any commodity, depends entirely on its use value, or utility.
* Rejected the notion that labor was the source of value. ONLY utility created values.
* Obliterated the theoretical distinction between the incomes of the different social classes.
* Existence of different “productive agencies” combined together to produce goods.
* Frugality was the source of capital ownership, and frugality involved as much sacrifice as working.

**Nassau Senior**

* The social and economic problems that most consistently commanded his attention were the general condition of the working class and the cause and consequences of poverty.
* Disagreed with Malthus’ theory of population
  + It could not lead to the conclusion that working people would always be at a subsistence level
* Saw moral education as the only hope for eliminating poverty (before 1830)
* Concerned with the threat of strikes, violence and union.
  + These actions could lead to rent, tithes, profit and capital decreases which in turn could cause famines, pestilence and civil wars.
* Disagreed with socialist ideas; called it the political economy of the poor.

**Discussion Questions: Bentham, Say and Senior**

1) At the end of his first paragraph in his chapter on Bentham, Say and Senior, Hunt writes, “the forces of market competition were seen as natural, immutable laws, similar in every way to the laws of nature.” Summarize key elements of the argument Hunt is making in this paragraph. Then list the five (5) “immutable laws” that he identifies and discusses. Finally, explain your reasons for agreeing or disagreeing with what Hunt argues about these “immutable laws.”

1. Hunt is saying that these are just laws of nature.

2) What elements of these immutable laws constituted ‘human nature’ for Bentham, Say and Senior? Briefly explain. Do these elements effectively describe your own behavior/‘nature’ well? Do they for most people you know? Explain.

3) If these are universal features of ‘human nature’ why did it take so long for them to be articulated so clearly? What does Hunt argue on this point? Explain. Do you find his argument convincing? Explain why or why not.

4) How did Bentham use the Utility Theory of Value (UTV) to argue that a redistribution of income in society was desirable? Explain, paying careful attention to the assumptions about individual utility and social welfare that seem to underlie his argument.

1. **Marginal utility. Jeremy Bentham believed that the amount of enjoyment or utility that someone gained from something diminished with each increment added. So a poor person would gain substantially more utility from an extra ten dollars than a rich person. He said that there comes a point where getting more money stops making people happier, so it wouldn't hurt to redistribute wealth from some of the wealthiest of society to the poorest, where the utility of the money would be greater felt. The two principle assumptions that underlie this are that people can acquire so much wealth that they become satiated, so slight increases or decreases of wealth become immaterial to them, and that the utilities that any two people derive from their wealth can be compared.**

5) What other issue caused Bentham to abandon his extreme laissez faire prescriptions later in his life? Explain. Who else that we’ve read to this point made a similar argument?

6) Bentham argued for beneficial government/social reform (again, later in life). What criticism does Hunt make of Bentham’s argument for government reform or intervention? Would this critique apply to all utilitarian theorists? Explain.

7) Explain the “water/diamond paradox.” Explain the way that Bentham came very close to resolving this paradox in ways that would be important to later economists in the exchange, or utility theory of value, tradition.

8) Clearly explain the central elements of the argument that has come to be called “Say’s Law.” Which authors that we’ve covered so far agreed with Say’s Law and which disagreed?

9) The theorists we are studying in this chapter argue that utility maximization is essential to understanding the nature and functioning of capitalism. The argument is beginning to emerge that all individual, economic actors are essentially the same - attempting to maximize pleasure and minimize pain – where production brings “pain” and consumption brings “pleasure.” If all actors are the same, what is the same general “thing” that everyone is producing and what sort of pain are workers and capitalists experiencing in production? Explain. What terms did Say and Senior use for capitalist pain?

10) Explain important elements in Senior’s (other) argument that distinctions between economic “classes” (and their sources of income) were meaningless and misleading. Be sure to explain how Senior used Ricardo’s theory of rent as an important aspect of this argument. How can these arguments about rent be used to explain unequal earnings among wage/salary earners, even when they hold the same job? Explain.

1. One goal in our course is to explore the arguments that different economists have made about the determinants of income (and wealth) distribution. What arguments do Bentham, Say and Senior seem to make about what determines the distribution of income? That is, what do higher versus lower incomes seem to imply about “economic actors”? Explain.
   1. **According to these three theorists, income is determined by the amount of utility one contributes to a product and the sacrifices one makes to add that utility. A higher income means that one contributed (and therefore sacrificed) a lot to the production process, which seems to imply that the sacrifices capitalists make are much greater than those that workers make. This seems like bullshit to me, but that's what follows from the arguments.**
2. If you accept Bentham, Say and Senior’s theories/arguments about the determinants of income (and wealth) distribution and if you accept that reducing economic inequality is a worthy policy goal, then what types of policy could be implemented to reduce inequality in the distribution of income? Explain.
   1. **If we have to help...**

**Create more utility: retrain, expand educational opps, give people the skills they would need to get a higher paid job. They're poor because their skills aren't enough.**

**Senior: public assistance super below minimum aid, make poor people**

13) Senior offers a clear statement of his methodology in his *An Outline of the Science of Political Economy*. Describe some of the important element in Senior’s methodology. Does it remind you of anything we read early in the term? If so, which reading and why? What argument does Hunt make in claiming that this very early statement on methodology is important to understanding the history of economic thought? Summarize Hunt’s critique of Senior’s methodology? Critically assess Hunt’s arguments and explain the reasons for your assessment.

**October 13, 2017 Class Notes**

**Midterm**

* “Who argued similar things about his issue”
* Don’t just articulate what every economist said.
* Show that you have a good command about issues
* Write in your own words