

# **All-things 'capitalism,' pt. II**

**EC 103–002**

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Motivation

# Motivation

Suppose you end up with a *flat tire* in the middle of Wisconsin while taking a road trip.

- What is your **first** action?

# Motivation

Since tasks we cannot do ourselves can be performed by others, the **guaranteeing of the daily bread** is secured to a wide range of **economic agents**.

- *What/Who are these agents?*
- Households;
- Firms;
- Government;
- Law enforcement.

Therefore, the material abundance we know today is a product of the **division of labor**.

The individual and society

# The individual and society

Over the course of economic progress, the **division of labor** has allowed economies to improve technology, productivity, and the well-being of society.

Along with this, so have improved the **reach of human wants**.

- And this progress comes at the expense, primarily, of **nature**.

Thus, **scarcity** is not only a feature of *nature*, but also created and intensified by *humans*.

The "standard" definition of Economics usually gravitates around the lines of

| *Allocating scarce resources among finite ends.*

*Do you agree?*

# The individual and society

Regardless of the social system, **any** economy must solve two **fundamental tasks** to function:

1. **Production;**
2. **Distribution.**

Regarding **1**, a society must provide enough goods and services to guarantee its survival.

And after output is produced, how to **arrange the circulation** of what is produced?

Although simple *intuitively*, in *practice* these two tasks are quite **complicated**.

# The individual and society

Most of the times, nature **does not** give humans the *finished* products for their consumption.

Thus, some process(es) of **material transformation** is (are) necessary.

- The process of **production**, therefore, involves *organizing the social institutions that will mobilize efforts to advance these material transformations.*
- *What to produce?*
- *How much to produce?*
- *And produce to whom?*



# The individual and society

After these decisions are made, the problem becomes how to **distribute** the fruits of human productive effort.

And the **strategy** to distribute output must keep individuals constantly engaged in production.

Q: **How** to *produce* and *distribute*?

Throughout History, we have experienced **three** main types of **solutions** to the production and distribution issues.

These are:

1. *Tradition*;
2. *Command*;
3. *The market*.

Solutions to the economic problem

# Solutions to the economic problem

Let us start with **tradition**.

Over a long process of trial and error, *tradition* is established as a mode of organization based on **custom** and **belief**.

Usually, tradition assigns **production** tasks to fathers and sons.

And **kinship** regulates the **distribution** process.

Tradition however, lacks *dynamism*.

- Unable to produce in *larger scales*.

# Solutions to the economic problem

**Command** is a method of **imposed authority**.

In this setting, **production** and **distribution** occur according to *authoritarian* enforcement.

Here, progress can happen quite fast, given *power relations*.

# Solutions to the economic problem

Lastly, the **market** has no deep ties with either *tradition* or *command*.

How **production** and **distribution** are (dis)organized will depend on different points in time and locations.

And to better understand this puzzle we have to go back in History and see the main differences between **pre-market** and **market** societies.

Pre-market societies

# Pre-market societies

The act of **trading** commodities is as *old* as humankind.

However, for most of human history, the **market** was an *accessory* of daily lives.

- In other words, the processes of **production** and **distribution** were independent of "markets."

Let us further highlight some aspects of **Ancient** and **Medieval** societies.

# Pre-market societies

Throughout **Antiquity**, the predominant economic activity was **agriculture**.

- In terms of **division of labor**, not many individuals were "freed" from this activity.

The main economic agent was the **peasant**.

- Production mostly for subsistence;
- Distribute a portion of it to the *owner* of the land.

No notion of **profits** at all.

In urban settings, any trading activities usually involved *luxury* goods from abroad.

Furthermore, the main form of urban labor was **slavery**.

Lastly, if any **wealth** could be produced, it was not in the hands of *economic agents*.

- *Political, military, or religious* status.



# Pre-market societies

In **Medieval** times—especially after the fall of the *Roman empire*—the **economic** aspect of antiquity was also strongly changed.

The basic economic organization, then, became the **feudal** system.

The *manorial* estate was typically a large portion of land, owned by a feudal *lord*.

On the other hand, *serfs* were not slaves, but, in practice, a property of the lords.

- Tied by their plots of land;
- Performing labor for the lord.

# Pre-market societies

One of the most important aspects to the *lord-serf* relationship was the **security** provided by the former to the latter.

- Physical;
- Food.

Overall, in this very **static** system, the economic problems were *not* what dominated **individual** behavior.

- What was it, then?
- Economic matters were imposed by the **Catholic Church**.

# Pre-market societies

A Catholic saying:

*"Homo mercator vix aut numquam Deo placere potest."*

*"The merchant can scarcely or never be pleasing to God."*

An *improvement of economic well-being* was seen with strong constraints by the Church.

Among several issues, some are worth mentioning:

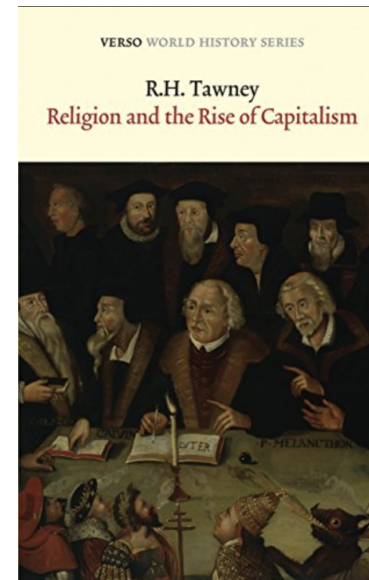
- The *"just" price*;
- *Usury*.

# Pre-market societies

Given this brief historical background, what was then *necessary* to establish a **market society**?

- Economic *gain* must be accepted (profits);
- The economy must be *monetized*.
- Monetized markets must be the center of gravity around which economic activity fluctuates.
  - That is where people can make money!

Book recommendation: "*Religion and the rise of capitalism*," by R. H. Tawney



# The emergence of markets

# The emergence of markets

What are some **economic agents/events** that have led us to market societies?

- Itinerant *merchants*;
- *Urbanization*;
- *Exploration*;
- Change in *religious* conventions.
  - Calvinism;
  - Protestant ethic.
- Rise of *cash*.

# The emergence of markets

All in all, market society can be boiled down to a few factors:

- **Self interest**/profit motive;
- The establishment of labor, land, and capital as **factors of production**.

With the factors allowing for market society to develop, we establish the **capitalist economic system**.

Next time: Technology, population, and growth