

Emergence of capitalism

1

Midterm

- Multiple choice questions?
- Identifications – definitions of key concepts
- Short answers – like multiple choice but w/o options
- Longer essay – Make the strongest case either for or against the free market and respond to main objections (3-4 paragraphs)

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Life in 1800 quiz

- Population of Europe in 1800?
- Population of Paris in 1800?
- How many cities with populations >100,000 in Europe in 1800?
- Avg height of recruits to British Navy in 1800?
- Hours to travel from London to Glasgow in 1800?

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Life in 1800 answers

- European population: 150 million (500 today)
- Paris population: 0.5 million (2 million today)
- 20 cities > 100,000 population (500 today)
- Average recruit: 130 cm!
- London to Glasgow: 62 hours

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Life in 1800

- A different world
- People living in much smaller communities
- People much less healthy, nourished
- People much less mobile
- People have much less to buy

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Review: Malthus and growth

- Malthusian model
 - Population always grows faster than income
 - Any increase in income due to technology eaten up by rising population
 - Innovation produces people not growth
- Great divergence
 - Gradual growth but compounded
 - New forms of production

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World economic history in 1 pic

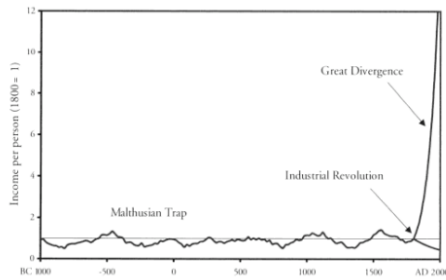


Figure 1.1 World economic history in one picture. Incomes rose sharply in many countries after 1800 but declined in others.

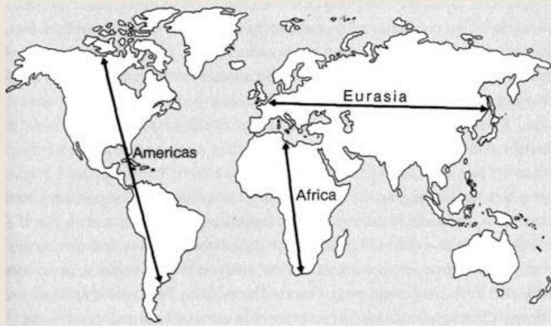
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Review: Geography

- East-West axis of Eurasia
- Europe a fractured continent
- England an island w/ abundant coal
- Tropical diseases

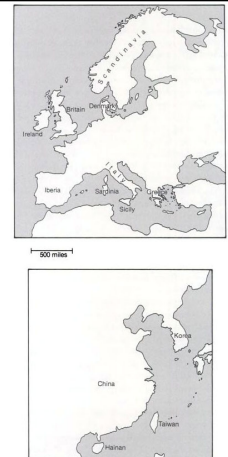
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Jared Diamond's Continental Axis theory



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Fractured land hypothesis



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Review: Institutions

- Countervailing powers to monarch
 - Church, common law
- Glorious Revolution => inclusive institutions
 - Stronger parliament, rule of law
 - Property rights, freedom contract, no monopoly
- Credible commitment, creative destruction
- Feedback between political and economic institutions

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Review: Society & psychology

- Importance of ideas: belief in progress
- Kinship societies & limited innovation
- Church's marriage & family program
- WEIRD (Western, educated, industrial, rich, democratic) psychology – individualism, analytic, impersonal prosociality

Finally, O-ring theory: you need it all

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Complete the following sentence in several different ways

- I am....

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If you answered...

- I am Una's brother
- I am curious
- I am part of the 5th generation of Smiths living in Evanston
- I am a lawyer
- I am a marathon runner

Then you are like most of the human race throughout history

Then you are WEIRD

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Debate: Workplace democracy

- Should workers have a right to ownership in their workplace? Or a right to participate in collective decisions in their workplace?

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Arguments in favor

- Firms are like states – exert coercive power over employees (high exit costs), therefore a right to govern
- Workplace democracy creates more meaningful work
- Workplace democracy builds civic virtue, democratic habits

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Arguments against

- Worker ownership less efficient – too many workers, less monitoring, too much risk
 - If better, why not more examples?
- How to change current system – do workers want control, how to get it
- Illiberal – restricts freedom of owners and workers
- If it is better, why isn't it more common?

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Discussion questions

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1. Malthus today

- Are we returning today to a Malthusian world? I am thinking here of things like Covid and the exhaustion of our natural resources not to mention climate change.
- Does morality look very different in a Malthusian world – eg, is inequality still a big worry? What else would change? How are politics and society different in a Malthusian world? Are we ready for it?

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2. The Chinese challenge

- In England's industrialization good things seem to go together - free markets and democracy support each other.
- Today the main success story in the world is China where markets may be free, but political institutions are not inclusive. Does China's success give you less confidence in the England story? Why do exclusive institutions seem to produce such high growth in China?

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3. Chicken and egg

- Which do you think is more likely: that social & psychological changes gave rise to capitalism and democracy or that capitalism and democracy gave rise to social and psychological changes?
- Do we see any evidence for these alternatives in the current world - eg, when immigrants from one sort of society move to another?

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4. WEIRDness and success

- The US is one of the most WEIRD societies in terms of individualism and other traits.
- But we can also find successful places where a smaller proportion of the population is WEIRD, eg, East Asia. Why are they successful?
- Is the distinction between WEIRD and non-WEIRD a good predictor of success in the kinds of problems that countries face today?

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Today

- **Malthus's world**
- Nature of industrial revolution
- Explanations – Geography & Institutions
- Explanations – Society/Psychology

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Subsistence economies



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Malthusian world

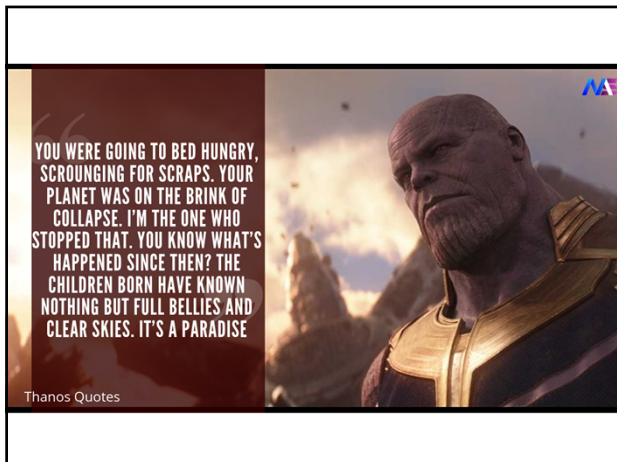
- Life is “nasty, brutish, and short”
- Most people live in rural poverty at close to subsistence level
- Malthusian model
 - Population limited by means of subsistence
 - Whenever subsistence (income) increases, population rises to consume increase and so income drops
 - Population will always increase faster than subsistence

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Thanos’s world

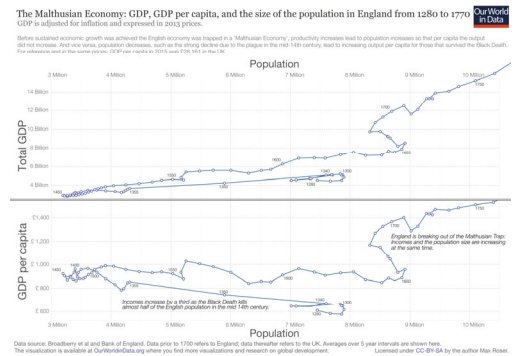
- Size of population, not technology determines standard of living
 - Higher population => lower standard
 - Eg, plague raises living standards
- Don’t have to farm marginal land
- Technology only raises incomes temporarily but population permanently
 - Technology produces people not wealth

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Population and income



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Not entirely true

- Some societies or parts of societies do rise above subsistence levels for significant periods
 - Particularly urban areas – Stadtluft macht frei
- But not long-term growth sustained over centuries
- If Malthus true, then maybe hunter-gatherers were better off. More leisure, more varied diet, more equality, more coercive state.

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Today

- Malthus’s world
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Great but gradual transformation

- Industrial revolution remakes society
- But not a jump to super fast growth
 - Britain's growth 0.5%/year from 1760-1850
 - Then jumps to 2%/year (Engel's pause)
 - Little improvement in living standards til mid-19th
- Similar to current US growth rates
 - China nears 10% for past 2-3 decades
- But an enormous change from Malthus

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Divergence, big time

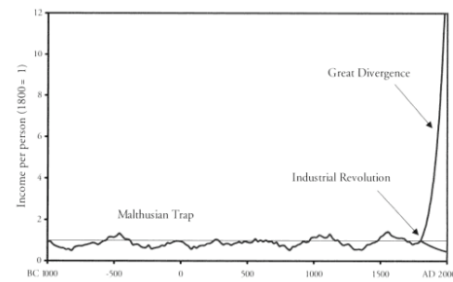
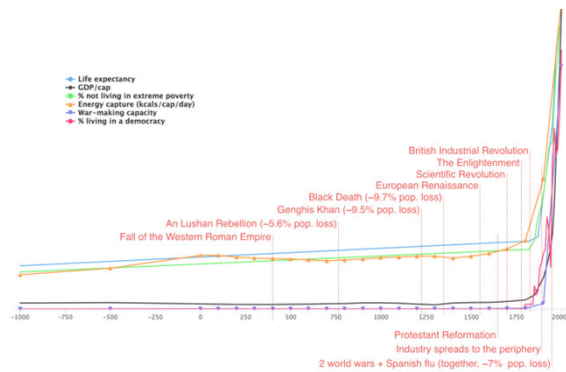


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Impact of Industrial Revolution



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Move from subsistence to growth is the great question in social sciences

- Why only once, why England?
 - Needham's question: China; Rome, elsewhere?
- Polanyi calls it the Great Transformation
- But actually not so far in past
 - People alive today knew Oliver Wendall Holmes (1841-1935)
 - He shook hands with John Q. Adams (b. 1767)

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Technological innovations

- "A wave of gadgets"
- New innovations in
 - Textiles – spinning jenny, cotton gin, power loom
 - Metallurgy – cheap production of pure iron
 - Energy – coal and steam engine
 - Transportation – canals, railways

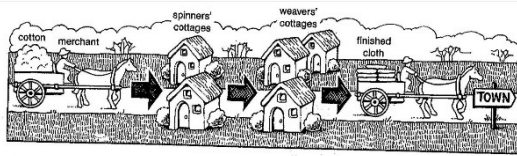
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New forms of production

- Old system: cottage industry, putting out
- New system: factories of Manchester, Sheffield, later Lille, St. Etienne, Ruhr
 - But more often small mills
- Industrial discipline
 - Assembly line production
 - Deskilling of artisans
 - Taylorism – measuring work, clock in and out
 - Proletariat – wage-labor

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The Putting Out System - "Cottage Industry"



Domestic System

1600s-early 1700s, cloth was made by the domestic system. Most of the work was done in the cottages of the workers. Whole families worked together.

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But more complicated

- Often intensification of existing trends
 - Improving familiar technologies, tinkering
- Everything depends on increased agricultural productivity
 - Need surplus food to feed urban labor force
 - Agricultural innovations
 - Enclosures of public lands – productivity

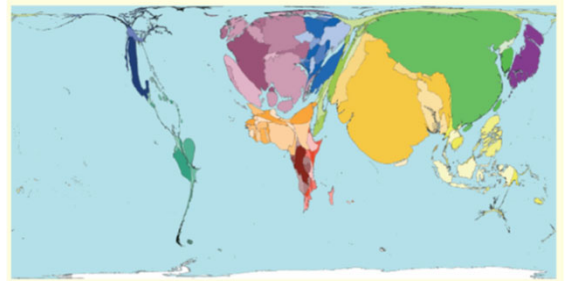
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Divergence and industrial revolution

- Formerly relative equality between countries: ratio of rich to poor is 2:1
- Today most inequality in world is between countries, not within countries
 - Ratio of rich to poor countries now 80:1
 - Previously everyone living at lower levels
- Differences mostly related to industrialization

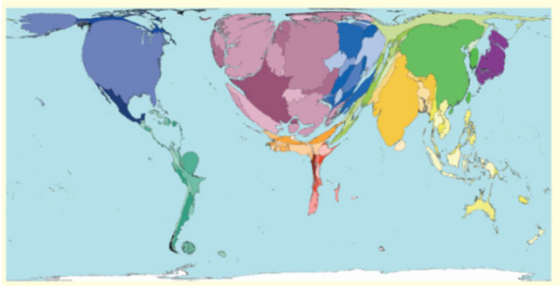
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Wealth Year 1500



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Wealth Year 1900



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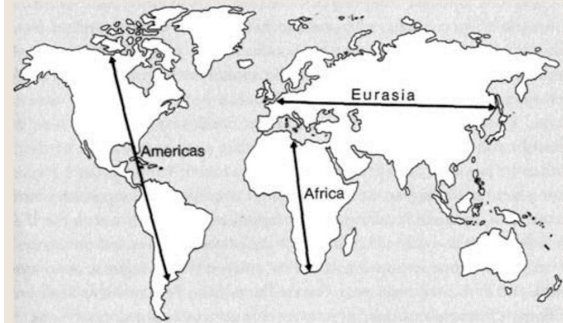
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Europe's geographic advantages

- East-West axis of Eurasia leads to technological exchange
- Coasts, rivers, and mountains lead to fragmented power (and also trade)
 - Competition between polities produces innovation and weakens central power

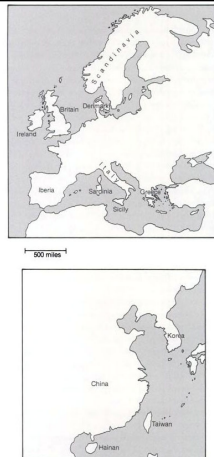
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Fractured land hypothesis



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England's geographic advantages

- Island state – fewer resources devoted to defense and war
- Rivers, ports, coastline close to everyone
- Close proximity of accessible coal and iron
- But doesn't explain the timing

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Inherited institutions in England

- Magna Carta – king forced to share power with barons
 - Tradition of rights & esp. property rights
- Common law and courts
- Gradual expansion of English parliament
- More fluid social classes

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Stuarts and coercive power (17th c.)

- Stuarts should behave well in order for the economy to grow and produce resources
- Instead they sell their lands, seize property, force loans, sell monopolies
 - Use coercive powers: royal prerogative, star chamber
 - Worse economy, fewer resources
- Why? High discount rates – they need the money quickly

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Glorious Revolution

- Stuarts are overthrown twice
- Civil War: Cromwell & Parliament
 - But parliament can be dictatorial
- Glorious Revolution (1688): William & Mary
- New institutions
 - Parliament more power to raise taxes
 - Royal power subordinated to common law
 - Veto powers for multiple actors: crown, parliament & courts

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Credible commitments

- If government promises not to expropriate, can you believe it?
- But if crown constrained by Parliament & courts, its hands are tied
 - Now merchants willing to lend
 - By tying hands, government gains more power
- Separation of power as credible commitment
 - Madison: ambition shall be made to counteract ambition

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Where does new growth come from?

- In past, resources were enough – labor, land, natural resources
- Modern growth depends on innovation and productivity
 - Industrial Revolution driven by new technology in agriculture and industry
 - Lead to massive increases in productivity
- Need incentives to innovate & invest
 - You get profits, not expropriated

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Extractive versus inclusive economic institutions

Extractive

- Slavery & serfdom
- High taxation and transfers from poor to rich
- State-granted monopolies
- Restrictions on trade, mercantilism

Inclusive

- Private property is central
- Patents
- Unbiased system of law
- Freedom to contract and exchange
- Low barriers of entry to new business

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New economy in England

- Status quo: Monopolies for production/trade granted by crown to favored groups
- New system
 - Limitations on monopolies
 - Creation of secure property rights: enclosures, patent law
 - Increased supply of public goods (roads, hygiene)
 - Question: Difference btwn monopoly & patent?

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Creative destruction

- Growth connected with creative destruction (Schumpeter)
- Every new technology destroys an old sector
 - Sewing machines & looms
- Elites and vested interests worry that sources of wealth will be taken away
 - Fight to preserve existing monopolies, restrictions
 - Both artisans and owners

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Need inclusive political institutions too

- Determine who holds power in society
 - Pluralistic distribution of power versus concentration of power in small group
 - Not just democracy, but countervailing powers
- Pluralistic distribution allows innovators to use newfound wealth to protect innovations

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Feedback loops

- Extractive economic institutions depend on and reinforce extractive political institutions
 - Group in power set up institutions to increase its wealth
 - Increased wealth allows it to better protect power – stronger police, military, buy off enemies
- Inclusive political institutions will undermine economic extraction
 - Inclusive politics => more equitable distribution
 - Slavery in democracy

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Are incentives enough?

- There are strong incentives to innovate even before Industrial Revolution
 - You might starve to death
 - Very little state intervention
- Most of great innovators don't get big rewards
- Need to be on right place on innovation curve

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Today

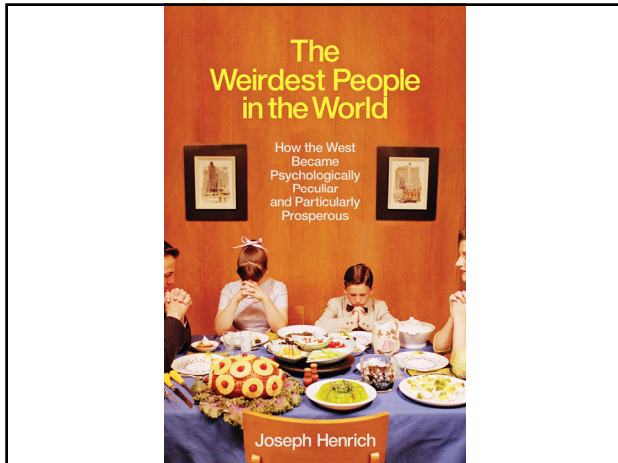
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Ideas matter

- Most innovations in Industrial Revolution not so difficult – tinkerers
- But need belief that we can understand and control the world using logic & evidence
- Most of history: ancestor worship, answers are found in great books, ancients
- Influence of Enlightenment, exploration
 - Learn that authorities were wrong

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Kinship societies

- Most societies dominated by kinship ties
- Dense family networks that regulate behavior: obligations & privileges
 - Marriage & family
 - Residence
 - Property ownership
- But also provide security against threats & risks

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A relational psychology

- Conform to in-group members
- Defer to authorities/elders
- Police those close to you
- Distinguish in-group from others

Not exactly the recipe for growth & innovation

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Church's marriage & family program

- Policies of medieval Catholic Church undermine clans and kinship
 - Ban cousin marriage, new inheritance rules
 - Create monogamous nuclear families
- Why? Mostly internal reasons – increase power & wealth of Church
- But unintended consequences

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What to do without kin?

- Develop own special attributes/skills
- Attract friends & business partners with useful attributes/skills
- Sustain relationships as long as they remain mutually beneficial
- Competition with others – shopping for better

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WEIRD Psychology

- Western, educated, industrial, rich, democratic – more individualistic
- Less conformity
- More self-regulation & control: patience
- Analytical over holistic thinking
- Impersonal prosociality: fairness, cooperation, honesty towards all

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Consequences

- Impersonal markets
- Urbanization
- Rule of law
- Democratic politics
- Civil society
- Science & innovation

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Weber and Protestant ethic

- Protestantism exacerbates WEIRDness
 - Value of hard work and self-improvement
 - Devotion to craft & technology
 - Rational pursuit of material gain
 - Self-abnegation & saving

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Backwards causality

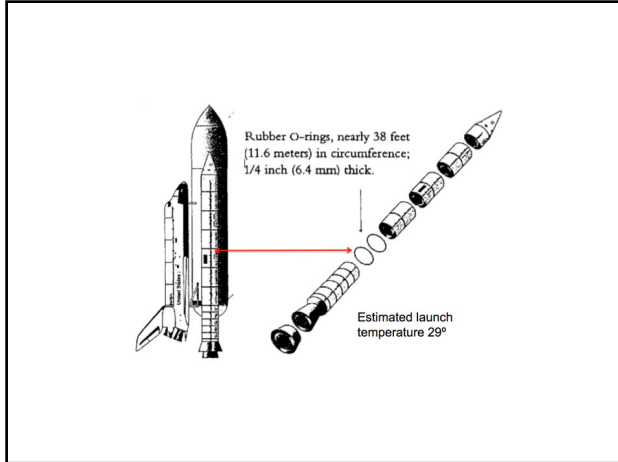
- Does unique psychology of individualism give rise to new economy/politics?
- Or does growing economy/democracy lead to individualist psychology?
 - Recall Hirschman on doux commerce
 - Immigrants to US?
- Probably some elements of both

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O-ring theory

- 1986 Challenger crash caused by single o-ring
- Idea that development can be forestalled by lack of any one element
- England needed:
 - Geography: island near Europe, presence of coal...
 - Economic institutions: property rights, common law, small government...
 - Political institutions: balance of power, no standing army, lack of war...
 - Human capital, right ideas, right psychology...

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Are we lucky?

- Why so long to get an industrial revolution?
- Where there any other possibilities?
 - Ancient Rome, China, Aztecs, Incas?
- What if it hadn't happened?
 - Lots of things could have choked it off: a war and greater state power at certain point?

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