

**“Economics for Everyone:
How to Cut Through the Jargon**

Later Life Learning, Innis College
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Session 2

A Little History

**Readings:
Chapters 3-4**

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**The Economy is
Always Changing**

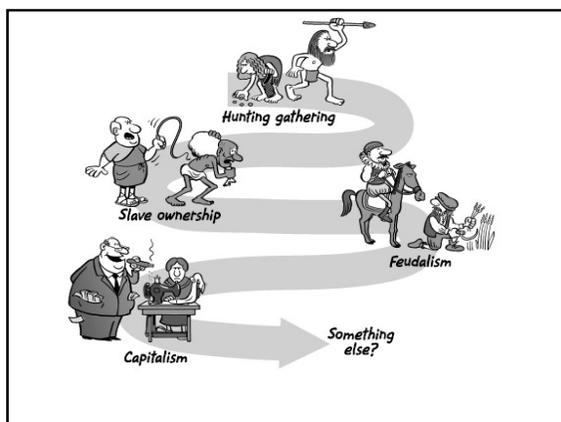
- The economy is constantly evolving:
 - What we produce
 - How we produce it (technology)
 - Our relationships to other people
- It's very important to study economic history
 - Provides perspective to today's capitalism
 - Proves that the status quo isn't permanent
- Economics is also in constant flux, changing alongside the economy

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A Short History of the Economy

- **Hunter-gatherer societies**
 - No surplus.
 - Very flat social structure.
- **Slavery**
 - Permanent agriculture allowed for a surplus to exist.
 - This opened a social conflict over who controls it.
 - Class divisions appear within society.
- **Feudalism**
 - A more sophisticated, subtle class structure.
 - Peasants did the work, landlords collected surplus.
- **Capitalism**
 - Social structures evolved to match the needs of new technology that produced much larger surplus.

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The Economic Surplus

- Every economy must produce enough to keep its participants alive, and to allow production to continue next year.
 - Subsistence for the people.
 - Replace inputs to production (eg. seeds for next year's crop).
- Production above and beyond this is the "economic surplus."
 - It can be consumed, invested, or wasted.
 - Control & use of the surplus is a key dimension of economic organization.
 - Different economic systems do it differently.

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Common Themes & Lessons

- Work is the source of all value added, no matter what the economic system.
- Humans learn by doing: as we work, we learn how to work better (technology).
- Social relationships and the organization of our work change with technology.
- Every society which produces a surplus, must decide who gets it, and what they do with it.
- Nothing in the economy is permanent.
 - Attempts to portray capitalism as "natural" or "ever-lasting" are ideological.

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Capitalism: Just One Kind of Economy

- All economies require work to be done to produce the goods & services we need.
- But they organize that work (and the distribution & use of output) differently.
- Our economy today does that in a particular, peculiar way.
- It's called "capitalism."
- Strange irony: mainstream economics almost never mentions the word "capitalism."
 - They assume that it's a "natural state of affairs."
 - But that's wrong: capitalism is a historical stage.

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Capitalism: ...the "C" Word



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The Two Defining Features of Capitalism

1. Most production is initiated & undertaken by private companies who aim to generate profit from this activity.
 - "Production for profit."
2. Most work is performed by individuals who work for someone else in return for money (wages or salaries).
 - "Wage labour."
 - We call this type of work "employment."

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Capitalism and its Euphemisms

- Usually called a "market economy" in textbooks (when it is given a name at all).
- This reflects the narrow focus of conventional (neoclassical) economics.
 - Tries to explain all behaviour as optimizing market transactions.
- But other economies have markets.
- And many things in capitalism are not determined through markets.
 - Especially inside a firm.

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The Birth of Capitalism

- The economic system we live under now emerged in the 18th Century in western Europe (especially Britain).
- It emerged from more advanced and centralized feudal monarchies.
 - Non-agricultural production and trade came to displace feudal agriculture as most influential sector in society.
 - New forms of ownership and control arose to reflect new technology of work.
 - New social structures emerged to meet the needs of this new system.

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What "Caused" Capitalism

Several factors contributed to the emergence of capitalism...

... and its initial concentration in W. Europe.

- Technology (power systems, machinery).
- Unified, reliable markets (transport networks, weights & measures).
- Resources (water power, coal).
- Empire (raw materials & slave labour from colonies; captive market for output).
- Government (strong state to oversee commerce, protect private property, manage colonies).

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The Evolution of Capitalism

- Initial conditions in capitalism were very harsh.
- Capitalism rapidly spread and evolved.
 - Very high profits & high rates of reinvestment, kept the system growing and dynamic.
- Conditions improved (in many places, not all), reflecting:
 - Social conflict -Wars
 - Booms and busts -Democratization
- Capitalism has experienced distinct phases.
- In the last century these phases included:
 - Early boom -Great Depression
 - Postwar "Golden Age" -Neoliberalism

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Neoliberalism: Capitalism with the Gloves Off



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**Neoliberalism:
Capitalism with the Gloves Off**

- Multi-dimensional effort to restore business power.
 - Economic, political, and cultural power.
- Response to "problems" of the late Golden Age:
 - Inflation -Worker militance
 - Falling profits -National liberation
- Two clear cannon shots signaled new era:
 - Economic governance: Volcker shock, interest rates
 - Political governance: Thatcher, Reagan
- Neoliberalism is NOT equivalent to "shrinking the state."
 - Rather, it redirects policy & power to aid business.

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Key Goals of Neoliberalism
(p.49)

- Reduce and control inflation; protect the value of financial wealth.
- Restore insecurity and "discipline" to labour markets.
- Eliminate "entitlements"; force families to fend for themselves.
- Roll back and refocus government activities to meet business needs; cut taxes.
- Generally restore the economic and social dominance of private business and wealth.
- Claw back expectations; foster a sense of resignation to insecurity and hardship.

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Key Tools of Neoliberalism
(p.49)

- Use interest rates aggressively to regulate inflation and control labour markets.
- Privatize and deregulate more industries.
- Scale back social security programs (especially for working-age adults).
- Deregulate labour markets (including attacks on unions).
- Use free-trade agreements to expand markets and constrain government interventions.

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Kinds of Capitalism

- Even under neoliberalism and globalization, different "varieties" of capitalism have been maintained.
 - With very different social and environmental effects.
- 1. Anglo-Saxon model (most unequal)
- 2. Continental model
- 3. Asian model
- 4. Scandinavian model (most equal, inclusive)
- Fighting for improvements in capitalism is possible and important
 - But is it enough??

[See chart p. 50.](#)

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| Type of Capitalism | Role of Government: Taxes as Share GDP | Role of Government: Economic Regulation | Financial Sector (Banks, Stock Markets) | Income Distribution | Managing Income Distribution | Union Coverage as % Workforce |
|--|--|---|---|---------------------|------------------------------|-------------------------------|
| Anglo-Saxon (US, UK, Canada, Australia) | 30-35% | Weak | Very Large | Very Unequal | Market Power | 10-30% |
| Continental (France, Germany, Italy) | 35-45% | Moderate | Moderate | Somewhat Equal | Mild Corporatist* | 50-90% |
| Asian (Japan, Korea, China) | 25-35% | Strong† | Relatively Small | Somewhat Equal | Paternalist Corporatist* | 10-20% |
| Nordic (Sweden, Norway, Denmark, others**) | 45-55% | Strong | Relatively Small | Very Equal | Strong Corporatist* | 50-80% |

* Some other European countries (like Austria and the Netherlands) have features similar to the Nordic type.
 † The state is especially active in the Asian model in stimulating capital investment and managing the sectoral make-up of the economy.
 ** Co-determination refers to a system of centralized negotiation between business, labour, and government.

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Which Way Are We Heading?

- Will the next generation have a better standard of living than us, or a worse standard of living? Why?
- Send a short answer now in the Q&A.

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How Capitalism Works

- Like it or hate it, most of the world economy today is capitalist.
 - And whether you like it or hate it, you need to understand how it works.
 - That will help us get the most out of it, and change it (as needed).
- The key features of capitalism (production for profit and wage labour) tend to produce & reproduce key behaviours over time, including:
 - Competition - Growth - Innovation
 - Conflict - Inequality - Cycles

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Demystifying "Capital"

- "Capital" is just the economic term for "tools."
- Physical capital: real, tangible products used to produce other products.
 - Distinct from "financial capital," which is just money.
- Fixed capital: long-lived, used in a workplace.
 - **Structures:** buildings, offices, stores.
 - **Machinery and equipment:** computers, assembly lines, hand tools, transportation equipment.
 - **Infrastructure:** roads, bridges, utilities.
- Working capital: the value of raw materials, inventories, and other items used up in production.

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The History of Economics

- Paralleling the evolution of the economy, economics also constantly evolves.
- But economics is not a neutral science.
- Economic theories and ideas always incorporate values and ideologies.
 - All aim to criticize or justify particular economic arrangements, not just explain them.
- And economics responds to the problems and controversies experienced in the economy.

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Adam Smith



The Classical Economists

- Wrote at dawn of capitalism.
- Analyzed society in terms of broad classes, historical change.
- Celebrated creativity and thrift of the new class of capitalists.
- Identified division of labour as source of productivity in new industry.
- Believed prices reflected labour values, and that wages tended to subsistence.
- Markets and competition will lead to mutual benefits (including through international trade).

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Karl Marx



Karl Marx

- Critiqued the inhumanity and exploitation of capitalism.
- Argued that profit reflects social relations, not the real productivity of capital.
- Predicted that capitalism would end because of internal conflicts and instability.
- Recognized that prices do NOT equal labour values, but tried to explain how they are related to labour values.
- Co-founded international workers' political party.

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Leon Walras

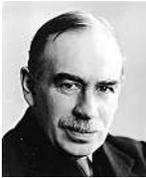


Neoclassical Economics

- Founded in 1870s as response to Marx's critiques and growth of socialist movements.
- Justified capitalism and the payment of profit.
- Focused analysis on individuals, not classes.
- Theory of general equilibrium, in which all markets (for factors and products) clear.
- Faith in self-adjusting, welfare-maximizing power of markets.
- Came to dominate economics teaching.

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J.M. Keynes



John Maynard Keynes

- Wrote in 1930s: prolonged depression which disproved neoclassical model.
- Explained why long-run unemployment might exist.
- Showed that output and employment depend on spending power ("aggregate demand").
- Advocated government intervention (spending, tax changes) to offset recessions.
- Intellectual underpinning for New Deal.
- In long-run, urged socialization of investment.

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Milton Friedman



Fundamentalist Reaction

- Neoclassical theory tolerated Keynesian ideas until 1970s.
- Breakdown of Golden Age spurred rejuvenation of core faith in private markets.
- Milton Friedman: government intervention only causes inflation and unemployment.
- Advocated monetary targeting ("monetarism") to control inflation, labour market "flexibility" (eg. deunionization) to solve unemployment.
- Intellectual underpinning for neoliberalism.

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Modern Heterodox Ideas

- Neoliberal ideas dominate the economic profession, but not without debate.
- Modern heterodox theorists challenge the theories and the policies.
 - **Post-Keynesians:** Radical interpretation of Keynes; emphasis on uncertainty, role of money.
 - **Marxists:** Predict systemic crisis from overaccumulation, overcompetition.
 - **Structuralists:** Emphasize interactions of class struggles and aggregate demand.
 - **Institutionalists:** Stress role of tradition, institutional inertia in shaping economy.
- Global economic crises have opened space for more debate in economics.

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The Politics of Economics

- There is no objective "truth" in economics.
- Economic theory has always tried to keep up with changes in the economy.
- Economic debates have always reflected real-world conflicts and struggles.
- Economics today used to defend the system.



Joan Robinson: "The purpose of studying economics is not to acquire a set of ready-made answers to economic questions, but to learn how to avoid being deceived by economists."

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Thank You!

Let's take 5 minutes...

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