

# All-things 'capitalism,' pt. I

**EC 103-002**

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Motivation

# Housekeeping

- **Required reading:**

- CORE, ch. 1.
  - Introduction; Sections 1.6, 1.7, 1.10, 1.12.

- **Recommended reading:**

- Heilbroner & Milberg, ch. 1.
  - Available on theSpring (see *Extra Readings* module).

The big picture

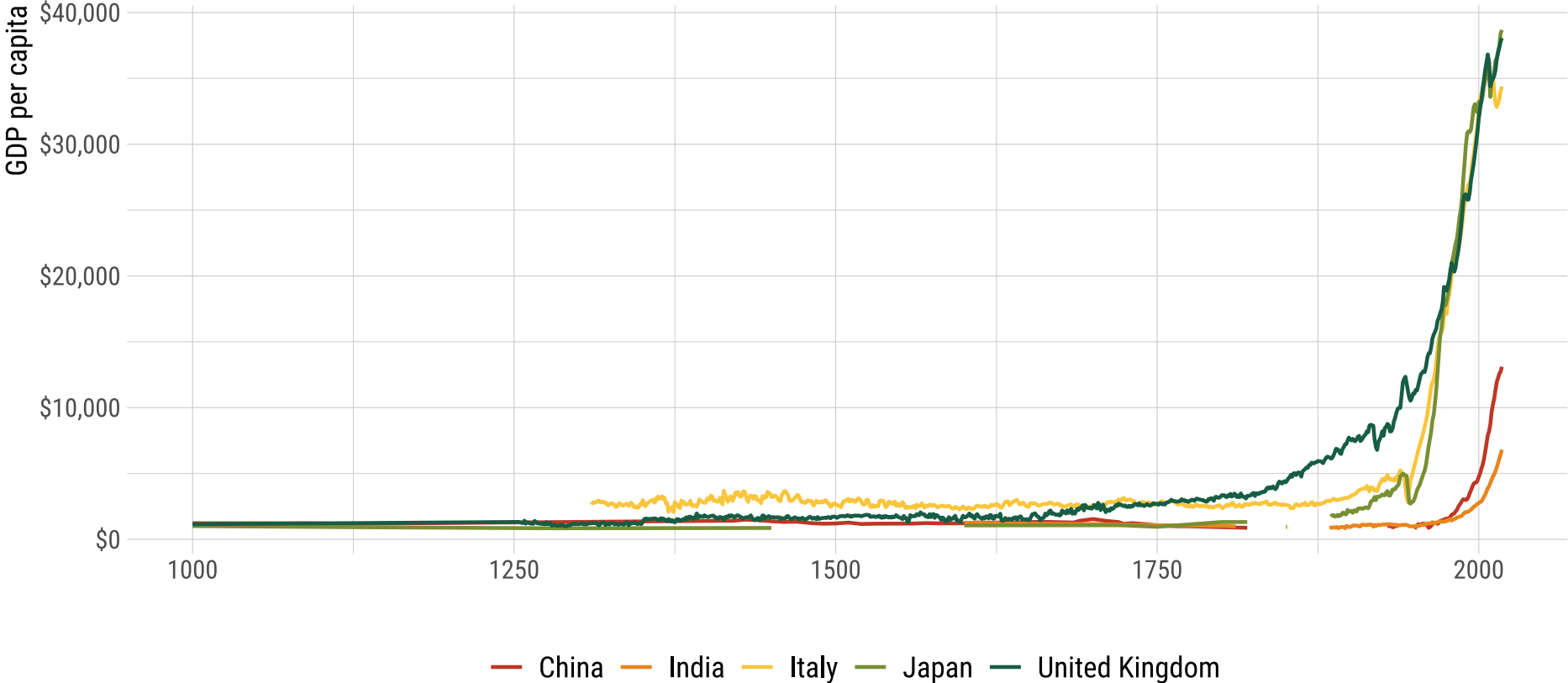
# The big picture

How is a **hockey stick** related to this course?



# The big picture

Gross domestic product per capita, selected countries (1000-2018)



# The big picture

It is clear that something happened after the 1800s to produce such an increase in GDP *per capita*.

And with this, a few **remarkable** facts:

- Increasing *living standards*;
- Rapid *technological progress*;
- Higher degree/pace of *social mobility*;
- *Globalization*.

But what **exactly** has happened since this period?

What has led us here?



# What has led us here?

This can be boiled down to the advent of **capitalism**.

- We all know what the term *capitalism* means, but we will qualify this term better for our purposes.

And **what** purpose is that?

- To think in **economic** terms.

Studying economics is studying how *society provides for its material well-being*.

And in providing for such material needs, individuals interact with **each other** and the **natural environment**.

# What has led us here?

In doing so, to better understand how the macroeconomy operates, we must understand *capitalism* as a **social system**.

As such, it has particular

- historical origins;
- unprecedented features and institutions.

We will study its *historical origins* in greater detail next time.

The **capitalist social system** combines three main **institutions**:

1. Private property;
2. Markets;
3. Firms.

And the **way** in which these three are combine will *vary* across countries and over distinct time periods.

Defining capitalism

# Defining capitalism

Differently from the *state* or other institutions owning the *means of production*, in capitalism most productive forces are **individually owned**.

One of the most important types of private property are **capital goods**:

- Buildings;
- Machinery;
- Software and other equipment.

Anything that can be enjoyed in a way chosen by the owner, that *excludes* other people from its use, and can be either *given* or *sold* to a third party can be defined as **private property**.

Of course, private capital goods **do not** include what we can *freely* obtain from nature:

- Water;
- Air.

# Defining capitalism

**Markets** are a means of transferring goods or services from one person to another.

Some **distinctive features** of markets are the following:

1. Exchanges are *reciprocated* (transfer occurs in both directions, through barter, money, and/or credit);
2. Buyers and sellers engage in exchange relations *voluntarily*;
3. There is some degree of *competition*.

# Defining capitalism

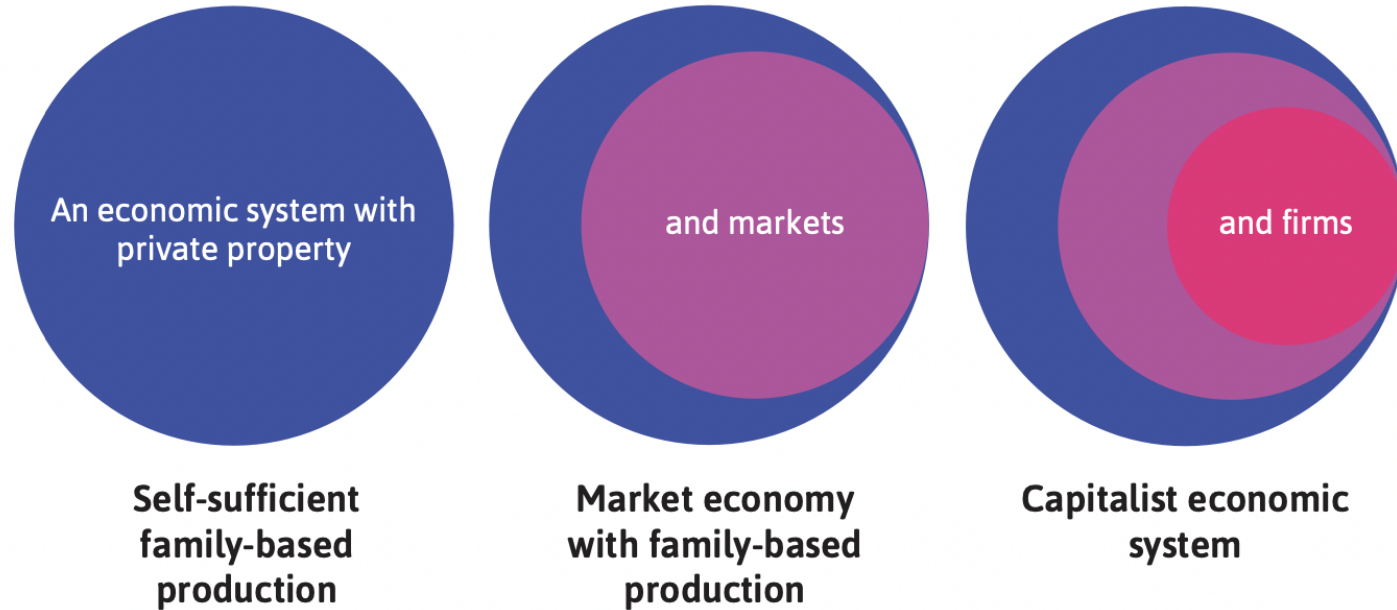
Lastly, production is organized mostly through **firms**.

Some **key features** of capitalist firms:

- Usually, one or more individuals **own** a set of capital goods that are used in production;
- They have employees, who receive **wages** in exchange for their labor time;
- What the firm produces (its **output**) is property of its owner(s);
- This output is sold in the market for a price, with the ultimate goal of generating **profits**.

# Defining capitalism

In a figure...



The other side



# The other side

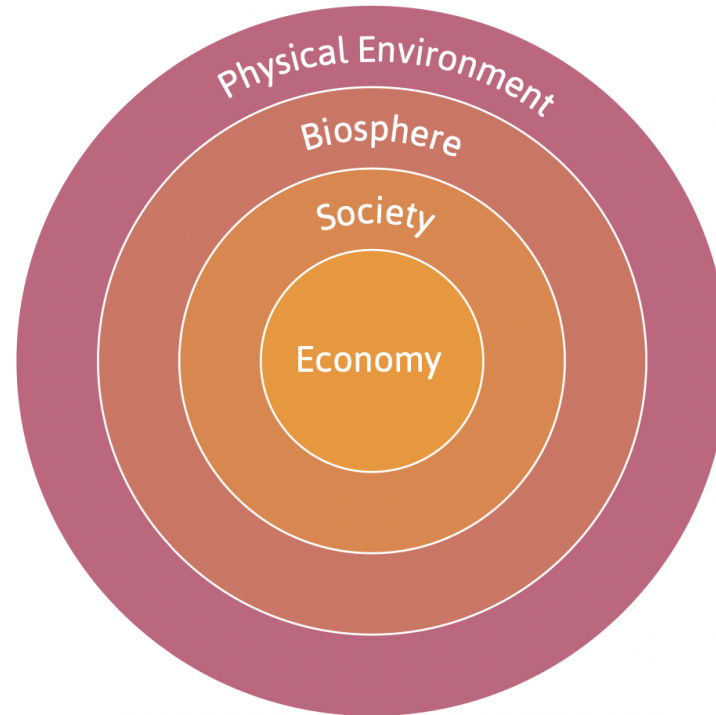
Back to the core economic problem—*guaranteeing our daily bread*—such task is totally dependent on **nature**.

The **essential resources** humans need for their lives are extracted from the *surrounding environment* and the *biosphere*.

- Air;
- Water;
- Food.

# The other side

The economy is an important aspect of life and of society, but it is part of a **larger social system**:



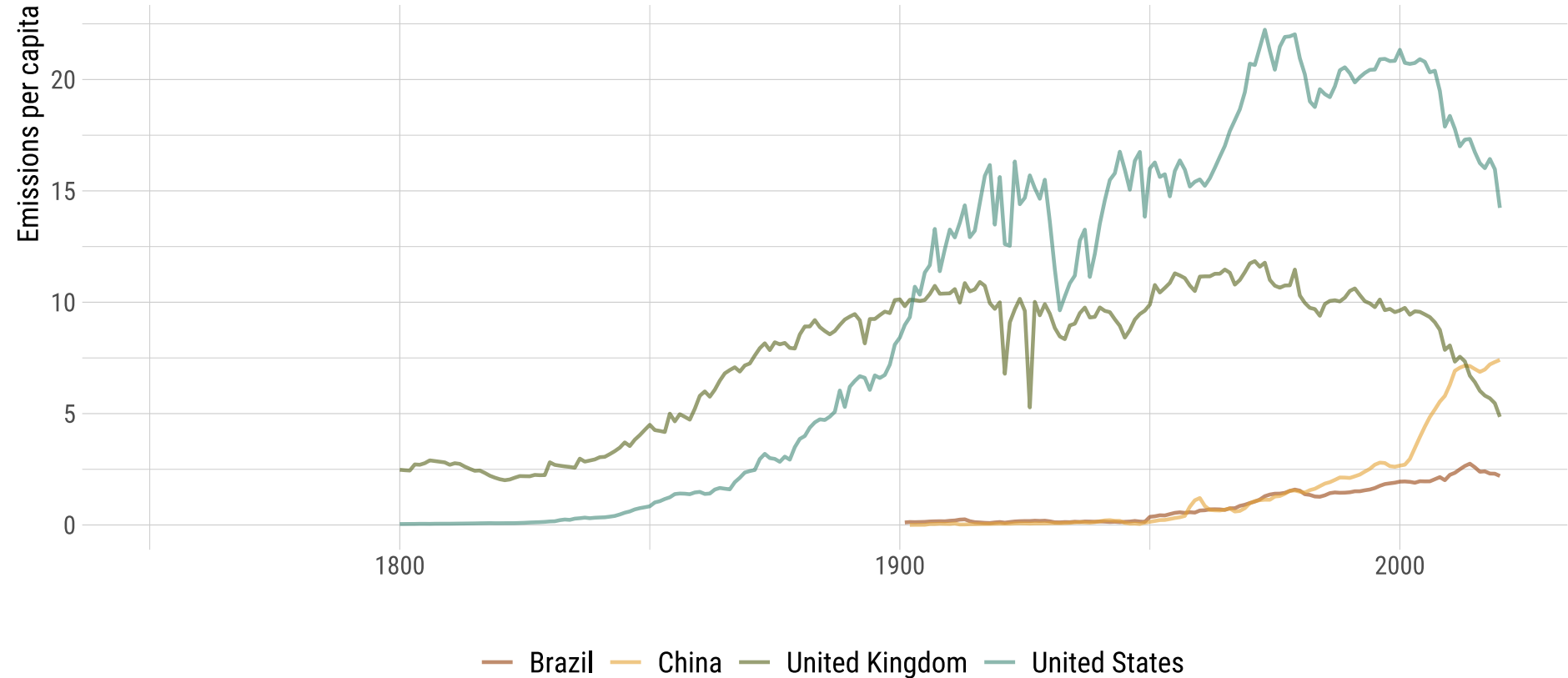
# The other side

Only recently have we regarded natural resources and the environment as limited in **quantity** and **quality**.

For the "hockey stick" to take place, the whole **ecological system** has gone through profound degradation and change.

# The other side

## Carbon emissions per capita, 1800-2020



Next time: Pre- and market societies