



Lecture 3

The classical school, Smith, Marx and the critical view
of growth

1



The classical school

2

Tableau Économique


Objets à considérer, 1°. Trois sortes de dépenses; 2°. leur source; 3°. leurs avances; 4°. leur destination; 5°. leurs effets; 6°. leur reproduction; 7°. leurs rapports entre elles; 8°. leurs rapports avec la population; 9°. avec l'Agriculture; 10°. avec l'Industrie; 11°. avec le commerce; 12°. avec la masse des richesses d'une Nation.

DÉPENSES PRODUCTIVES relatives à l'Agriculture, &c.	DÉPENSES DU REVENU, l'impôt public, le partage des Dépenses productives et des Dépenses stériles.	DÉPENSES STÉRILES relatives à l'Industrie, &c.
AVANCES ANNUELLES pour produire au cours de 1000 ^e ans 600 ^e produits au...	Revenu annuel de 600 ^e	AVANCES ANNUELLES pour les Ouvrages des Dépenses stériles, est 300 ^e
Productions des 1000 ^e ans	Produit	Ouvrages, &c.
1000 ^e produits au...	600 ^e	300 ^e
550 ^e produits au...	550 ^e	190 ^e
27.10 ^e produits au...	27.10 ^e	11.10 ^e
18.11 ^e produits au...	18.11 ^e	11.11 ^e
9.5 ^e produits au...	9.5 ^e	9.5 ^e
4.73 ^e produits au...	4.73 ^e	4.73 ^e
2.4.10 ^e produits au...	2.4.10 ^e	2.4.10 ^e
1.3.5 ^e produits au...	1.3.5 ^e	1.3.5 ^e
0.11 ^e produits au...	0.11 ^e	0.11 ^e
0.3.10 ^e produits au...	0.3.10 ^e	0.3.10 ^e
0.3.11 ^e produits au...	0.3.11 ^e	0.3.11 ^e
0.1.3 ^e produits au...	0.1.3 ^e	0.1.3 ^e
&c.		

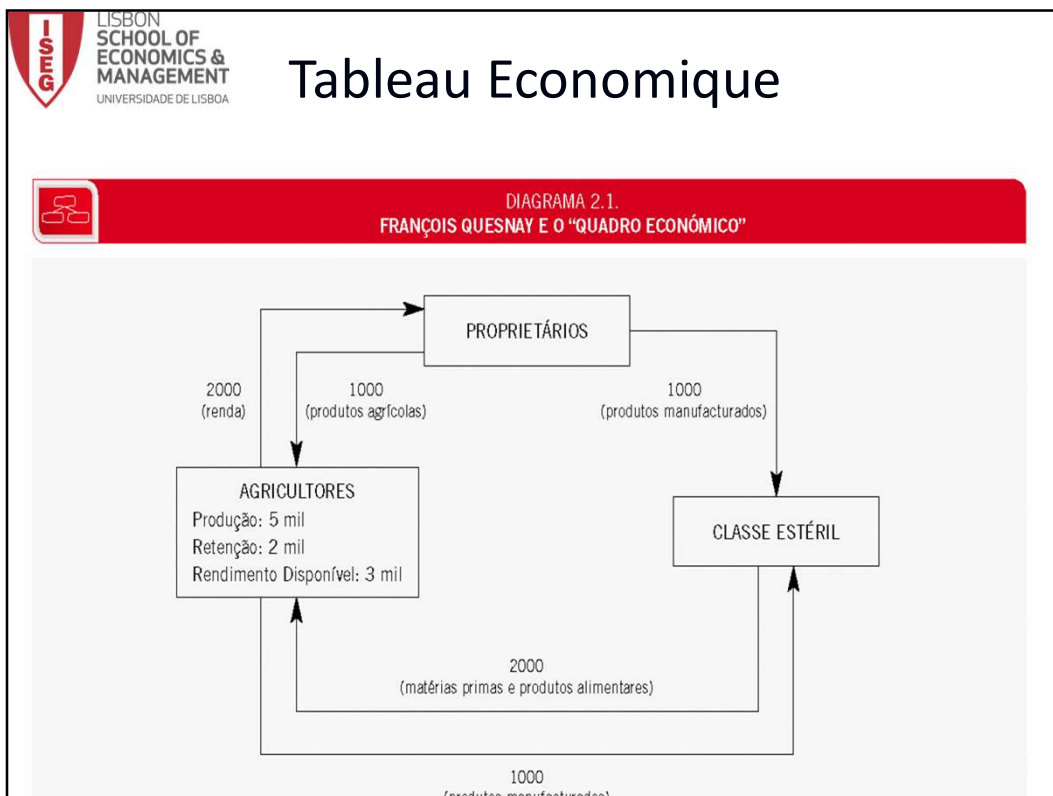
REPRODUIT TOTAL..... 600 ll de revenu; de plus, les frais annuels de 600 ll et les intérêts des avances primitives du Labeur, de 300 ll que la terre restitue. Ainsi la reproduction est de 1500 ll compris le revenu de 600 ll qui est la base du calcul, abstraction faite de l'impôt présent, et des avances qu'exige sa reproduction annuelle, &c. Voyez l'Explication à la page suivante.

François Quesnay

(1694-1774)



3



4

The big questions: How does capitalism expand, and what are the consequences?

5

Dynamic principles in Adam Smith

- Individual motivations governed by self interest which, through the “invisible hand” that interconnects them, somehow benefit the society as a whole
- Capital accumulation in the strict sense of physical productive capacities and, associated with it, division of labour, new production techniques and evolution of productivity

6

Dynamic principles in Adam Smith

- Institutions: government (justice, contracts), taxes (low), public services (basic)
- Distribution: an ideal that each one would receive a just share of income corresponding to their contribution to creating it.
- Theory of value based on cost of production: value is created by whoever participates in material production**

7

Adam Smith (1723-1790)

Free competition plays an important role. The **Government**, on another hand, also plays an important role, promoting the working of the institutions.

Division of labour was crucial for the working of the system: either *intra-firm* or *inter-firm* division of labour. The capitalist system deepens and widens the division of labour aiming at cost reductions, increasing output, rising profits, etc

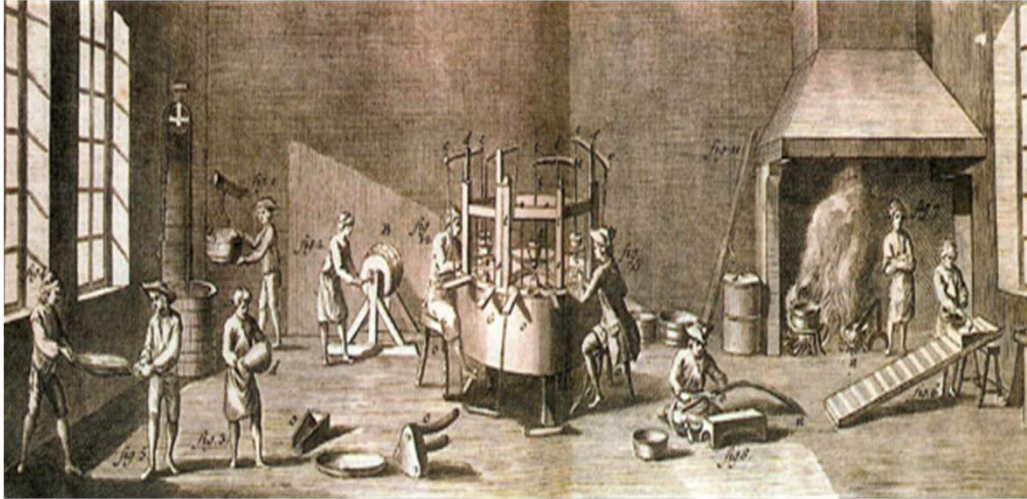
factors of growth:

- capital accumulation**
- technical progress and division of labour**
- competition and free trade (institutional dimensions, including regulation)**

8

8

Adam Smith and the pin factory



1 worker, 20 pins; but, after a new division of labour: 10 workers produce 48 thousand pins

9



Adam Smith (1723-1790)

Economic Growth is an **endogenous process**, depending on the decisions of the economic actors (savings, investment) and the endogenous creation of new ideas and knowledge, used for production (new products and/or new production methods).

The per capita income of a nation depends on the labour productivity ("skill, dexterity, and judgement with which its labour is generally applied").

The explanation of the growth of labour productivity is the division of labour (either within and between firms), depending on the accumulation of capital and on the size of the market

Technical progress is relevant, propelling the accumulation of capital as the major engine of this process. Technical progress is generated within the economic system; the new technical knowledge is a *public good* (non rival; non exclusion).

10

10

Adam Smith, The Wealth of Nations

“What everything is really worth to the man who has acquired it, and who wants to dispose of it or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people. What is bought with money or with goods is purchased by labour as much as what we acquire by the toil of our own body. That money or those goods indeed save us this toil.

They contain the value of a certain quantity of labour which we exchange for what is supposed at the time to contain the value of an equal quantity.

Labour was the first price, the original purchase-money that was paid for all things. **It was not by gold or by silver, but by labour, that all the wealth of the world was originally purchased; and its value, to those who possess it, and who want to exchange it for some new productions, is precisely equal to the quantity of labour which it can enable them to purchase or command.”**

11

Carta de David Hume (1711-1776) a Adam Smith

Adam Smith: ‘We are here in a very melancholy situation: continual bankruptcies, universal Loss of credit, and endless suspicions. There are but two standing houses in this place, Mansfield’s and the Couttses† . . . The case is little better in London. It is thought, that Sir George Colebrooke [chairman of the East India Company] must soon stop; and even the Bank of England is not entirely free from suspicion . . . The Carron Company is reeling, which is one of the greatest calamities of the whole; as they gave employment to near 10,000 people.’²¹



• “Ou serão ocasião para rever alguns capítulos?” (27 de Junho de 1772)

12

Critique of classical political economy and Marx's theory of value

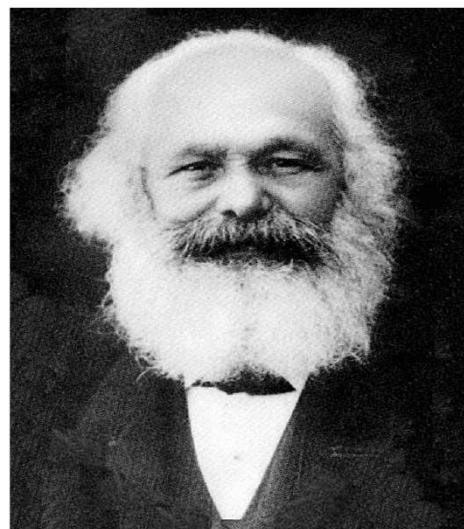
13

Karl Marx (1818-1883)

Theory of exploitation

Theory of social classes

Historical analysis of social
formations (Antiquity,
feudalism, Asiatic mode of
production, capitalism)



14

Karl Marx

Biographic summary:

1818, Birth (5th may)

1841, PhD in philosophy

1842 exiled in Paris (studies economics), 1845 in Brussels and 1849 in Londres

1848 Communist Manifesto (with Engels)

1867, first volume of “Capital”

1871 “La Guerre Civil en France”

1883, death

15

Marx’s analysis of capitalism

- Individuals make history but not as they please, as they cannot choose the historical and social conditions under which they do so.
- So, individuals are limited and inspired by the material conditions given by social structures under which their activities and struggles take place. Hence, social class struggle, rather than individual motivations

16

Marx's analysis of capitalism

•Progress takes place when contradictions within a system reach a point where they cannot be solved without changing the system itself.

•Capitalism is only a moment in the history of Human society, with its own particular general laws, which resulted from solving irreconcilable contradictions of past modes of production by overthrowing them, and creates new ones that, eventually, will result in the capitalist mode of production being overthrown by a different mode of production.

17

Marx's analysis of capitalism

•Hence, the role of philosophy is not only to understand and explain, but to change society. Hence, need to understand the essence of the capitalist mode of production in its own historical and social specificities.

•Capitalism is a system of capital accumulation, in a broad economic, social and political sense with historical context.

18



Marx's analysis of capitalism

•Capital accumulation involves different stages, that may (or may not) repeat themselves in different social and historical conditions:

- Expropriation of the means of production from direct producers and creation of wage ("free") labour
- Expansion of wage labour and commodity production to all spheres of society, together with the maintenance of those forms of non-capitalist and non-market activities that are crucial for social reproduction of wage labour
- Expansion of consumption, dominated by capitalist dominance of exchange values over the use values of activities
- Financialization, that evolves from fusion of industrial and financial capital

19



Marx's analysis of capitalism

•Innovation in production, management and logistics, technical progress, increase in labour productivity are motivated by two fundamental dynamics:

- The competition between capitalist
- The class struggle between capital and labour

These affect how surplus value is generated and extracted: absolute and relative

•Capitalist cannot afford not to expand and accumulate, or they are doomed → creates expansion and growth as well as capitalist crises of accumulation.

20

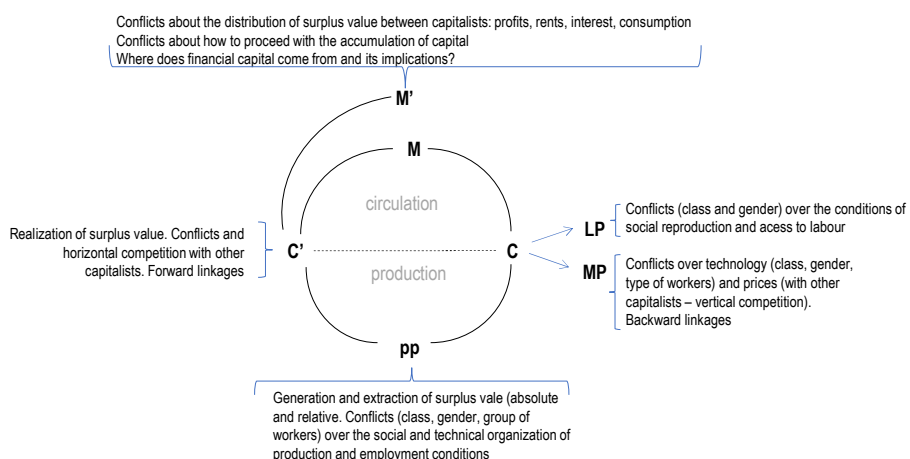
Marx's analysis of capitalism

•Marx's labour theory of value

- Where does value come from? Labour time embodied in all commodities. Concrete and abstract labour
- Are commodities exchanged by their exchange value? Roughly, but exchange value are different from prices
- So, if the labour theory of value is not a theory of prices, what is it useful for? Explanation of the origin of profits
- Where do profits come from? Deployed labour time over and above the social costs of reproduction of labour
- How can labour produce value in excess of its own social costs of reproduction?
 - Labour power is sold by labour to capitalists
 - Absolute and relative surplus value

21

Circuit of industrial capital



Legend: M = money ($M' > M$); C = commodities ($C' > C$); LP = labour power, MP = means of production; pp = process of production; C' = Commodities at the end of the production process; M' = Money at the end of the realization (of surplus value) process.

22

Marx: the concept of value

"Or rather the question arises, what is the quantitative form of existence of this labour, since the quantitative differences of the commodities as exchange-values are merely the quantitative differences of the labour embodied in them. Just as motion is measured by time, so is labour by labour-time. Variations in the duration of labour are the only possible difference that can occur if the quality of labour is assumed to be given. Labour-time is measured in terms of the natural units of time, i.e., hours, days, weeks, etc.

Labour-time is the living state of existence of labour, irrespective of its form, its content and its individual features; it is the quantitative aspect of labour as well as its inherent measure.

Critique of Political Economy

23

Marx (o que produz valor?)

"The labour-time materialised in the use-values of commodities is both the substance that turns them into exchange-values and therefore into commodities, and the standard by which the precise magnitude of their value is measured. The corresponding quantities of different use-values containing the same amount of labour-time are equivalents; that is, all use-values are equivalents when taken in proportions which contain the same amount of expended, materialised labour-time.

Regarded as exchange-values all commodities are merely definite quantities of congealed labour-time".

24

Rate of profit

The ratio between profit (surplus, the part of value that has not been paid as wage) and the capital that has been spent (constant and variable)

Or,

The relation between the **organic composition of capital** (a social and technical relation) and the **surplus rate** (a purely social relation)

25

Rate of profit (2)

Rate of profit = Surplus / K
= Surplus / (Kconstant + Wages)

Or,

= (Surplus/Wages)/(Cconstant/Wages)+1

The **organic composition of capital** and the **surplus rate** . These ratios evolve through time (tendencies and counter-tendencies).

A stylized fact: **Capital per worker** (K/L) grows at a sustained rate.

26

Rate of profit: a social process

Therefore, accumulation is a social process

Profit drives accumulation and it depends on the social relation as established in production

Difference between the owners of capital and the owners of labour.

27

10 years business cycle

*“there can be no doubt at all that the cycle through which industry has been passing in more or less **ten-year periods since the large-scale development of fixed capital**, is linked with the total reproduction phase of capital determined in this way. We shall find other determining factors too, but this is one of them.”*

(Marx to Engels 1843)

28

How was it? Primitive accumulation of capital as a historical process (1)

“The discovery of gold and silver in **America**, the extirpation, enslavement and entombment in mines of the **aboriginal** population, the beginning of the conquest and looting of the **East Indies**, the turning of **Africa** into a warren for the commercial hunting of black-skins, signaled the rosy dawn of the era of capitalist production. These idyllic proceedings are the chief moments of primitive accumulation. On their heels treads the commercial war of the European nations, with the globe for a theatre. It begins with the revolt of the Netherlands from Spain, assumes giant dimensions in England's Anti-Jacobin War, and is still going on in the opium wars against China, etc. The different moments of primitive accumulation distribute themselves now, more or less in chronological order, particularly over **Spain, Portugal, Holland, France, and England.**” (Capital, Vol. I, ch. 31)

29

Primitive accumulation of capital as a historical process (2)

“In England at the end of the 17th century, they arrive at a systematical combination, **embracing the colonies, the national debt, the modern mode of taxation, and the protectionist system.** These methods depend in part on brute force, e.g., the **colonial** system. But, they all employ the power of the state, the concentrated and organized force of society, to hasten, hot-house fashion, the process of transformation of the feudal mode of production into the capitalist mode, and to shorten the transition. Force is the midwife of every old society pregnant with a new one. It is itself an economic power.” (Capital, Vol. I, ch. 31)

30

An example: the monopoly of the British opium trade for China

The two
Opium
Wars:

1839-1842

1857-1858

Hong Kong

