



HANDOUT  
ECONOMIC HISTORY AND HISTORY  
OF ECONOMIC THOUGHT  
(FIRST PARTIAL)  
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*Written by Maria Vittoria Cesareo*



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## Economic history

### TRANSITION BETWEEN THE PRE-CAPITALISTIC ECONOMY AND SOCIETY AND CAPITALISTIC ECONOMY AND SOCIETY

**Lascaux paintings** => a way for the people there to represent the surrounding world, a way to detach from the animal like life and recognize the humanity, the fact of being human beings  
It's a symbol of a certain type of society=> society that had certain objectives=> society based on self-consumption => the way in which they conceive economy was not driven by the willingness to accumulate money/capital that could be reinvested in other economic activities=> representation of prehistoric times but also of a pre-capitalist society

**Metropolis- Fritz Lang** => advent of the industrial society and mass production, totalitarian society, dehumanization/ objectification of the workers, alienation, inequality as a distinctive feature of a capitalistic society, technological advancement.

Transformation of the human nature, transformation of the concept of knowledge (knowledge needed to be improved in order to have certain results=> need for continuous technological advancement) => different kind of society, different economic and political objectives

Moment of fracture: advent of capitalistic society that transformed the way of thinking about economic exchange=> accumulation of capital was starting to be seen as an objective within society, also a process of accumulation of political power => process concerned not only a transformation in a way of thinking of natural resources but also on the way of thinking about the human being itself.

Objective: addressing the different moments of fracture, discontinuity that brought us here, to our contemporaneity

With the advent of capitalistic society=> accumulation of capital=> reinvest in other economic activities to make economic growth possible => is economic growth natural? Inevitable? Is capitalism something that is basically part of human nature?

Are these economic and political changes transformative of the very nature of human being?

**COMMERCIAL CAPITALISM** was born in the transition between the medieval period (Middle Ages) to the early modern period.

Middle age (476d.C. fall of the roman empire - 15<sup>th</sup> century) => Early modern period (15<sup>th</sup>- 18<sup>th</sup> century)

**13-14<sup>th</sup> century**=> transformation in the way of thinking about economic exchange => birth of capitalistic economy => it is a period of growth.

Economic center: Mediterranean => it shifted to northern Europe => Very important trading activities carried out around the oceans => mostly by the Spanish and the Portuguese

A growth of the population is used to predict economic changes.

#### **Growth of population:**

- 11<sup>th</sup> century, 12/15 million people lived in Western Europe
- 14<sup>th</sup> century (before the Black death), 40/50 million people lived in Western Europe
- 17<sup>th</sup> century (before the Plague), 100 million people in Europe

Increase in the agricultural productivity=> migration from the countryside to the urban dimension

**Technological advancement** was made which fostered economic change/advancement

High technological creativity and economic dynamism in medieval Europe led to:

- Commercialization of agriculture
- Commercialization of industry
- Commercialization of commerce (growth of trade, local and distant; birth of financial instruments and banking institutions)

Medieval society before the advent of capitalistic economy => **FEUDALISM**: political and economic system used

Western Europe, 5<sup>th</sup> to 14<sup>th</sup> century

Feudalism is a word that was invented at the beginning of the 17<sup>th</sup> century => it derives from “feudum” which means **fief=land** => basic unit of economic and social organization=> everything revolved around the land

Feudalism:

- The king owned all the lands and gave parts of land to the different lords in exchange for money, military services.
- The fief was held by the **lord** => the lord granted the use of the land in return for service (military services, agricultural work) to knights, soldiers, peasants...
- The fief holder swore fidelity to the lord (homage)
- Highly hierarchical society
- Land is not conceived as a commodity; it's not conceived as something that can be exchanged on the market for money
- Economic exchange is based on **barter**.
- Centrality of **agricultural activities** and **self-consumption**

The king had to rely on other people to control the lands from an administrative point of view => “**no one could command from far**” => this changed with the modern society

“Allegoria del buono e del cattivo governo”, Fresco painted by Ambrogio Lorenzetti at “Palazzo pubblico” in Siena => it shows the political transformation of the time => birth of the Comuni

On one side of the room=> representation of the facts of the good government (prosperity, people are working), other side of the room => representation of the facts of the bad government (not able to take care of the well-being of the cities)

Migration of rural population to urban centers => feudal system entered into crisis

From the 12<sup>th</sup> century=> **CITY-STATES (COMUNI)**= main unit of social, economic, and political organization

Comuni spread in the north of Italy and the north of Germany=> the way of performing different economic activities changed

During the medieval period agricultural activities were predominant and people did not own the lands (agricultural work in exchange for protection) => not much interest on innovating => interest in working the land only to get the food necessary to sustain the family

**Increase of the agricultural productivity** from 8<sup>th</sup> century

- Three-course crop rotation (one part of the land is sown in autumn and harvested in summer, one is the opposite, and one is not used in order to restore the fertility of the soil)
- Heavy wheeled plow (break harder soils)
- Horses (horses are faster than ox)
- Iron

Land is still not considered as a commodity and agricultural work is mostly oriented towards self-consumption.

Something changed in the countryside surrounding the city => urban dwellers started investing in agriculture activities around the city, exploiting the lands, they took the agricultural produce and sold it in the city (local market within the urban walls)

The Comune wanted to establish both an economic control on the land and a political control on the countryside.

Initial transformation around the Comuni continued and developed especially in the Netherlands => establishment of modern agriculture around the 16<sup>th</sup> century

At a certain point exchange did not take place anymore only on the local markets but also distant markets => Italians and Germans were the forerunners, but the Dutch invented the first modern agriculture

Dutch => Instead of trying to produce as much as possible of the goods necessary for their own consumption, they preferred to specialize to sell on distant markets, and then they bought everything else on the market from other countries

16<sup>th</sup> century=> **COMMERCIALIZATION OF AGRICULTURE:**

- Specialization (reduction of unitary costs=> higher margins)
- Increased agricultural productivity
- Market-oriented production
- Import
- Commodification of the land (ownership of the land => could be exploited for profit)

New conception of agriculture around the Comuni=> urban dwellers started investing in agricultural activities and started selling agricultural produce in the city markets but also by long distance trade => agricultural production is not oriented anymore around self-consumption, but is market-oriented

In the cities other activities were carried out=> manufacturing industry

From 11<sup>th</sup> - 12<sup>th</sup> century, growth of manufacturing industry

- Textile (wool, linen and silk)
- Metallurgy (iron)
- Technological improvements (e.g. pedal loom, spinning wheel, water- powered mill)
- Increase in the demand

New forms of labor organization: **THE GUILDS** (in order to sell things, you had to be part of a guild=> guilds overview everything=> commerce and politics)

- ❖ monopoly of production
- ❖ no competition among members => no incentive to innovate
- ❖ setting of standards (procedures, quality, prices)
- ❖ welfare
- ❖ internal magistrates
- ❖ institutional role within the state

## COMMERCIALIZATION OF INDUSTRY:

**Putting out system:** merchant entrepreneur buys the raw materials => gives the materials to peasant workers that have the instruments to produce goods => the merchant then refined the goods and sold them => this led to the commercialization of industry

This system shows a new way of conceiving exchange => driven by the willingness to make profit => profit even higher when products are commercialized through distant markets => capitalistic view (workers: wage earners, merchant entrepreneur: invest capital and make profit) => commercial capitalism

Commercial capitalism was born between the late medieval period and the early modern period.

- ❖ Commodification of labor
- ❖ Profit is made by the merchant-entrepreneur
- ❖ Scale of production is limited but its organization is capitalistic
- ❖ As of the 16th century, manufacturing centers shifted from Italy to Low Countries and England

### Cities: Trading Sites

- Local exchange prevailed
- Self-consumption was the rule
- 9% of the total production was sold for money in the nearest city
- 1% was sold via long-distant trade

Yet, change in the nature of exchange: from direct exchange between producer and consumer to intermediaries (merchants)

Between the 12th and 14th century, emergence of new forms of business/financial organization and change in the scale of commerce in Italy:

- Commenda: a form of partnership between merchants or between an individual/institution and merchant => the person that financed the journey took  $\frac{3}{4}$  of the profit while the one that took the trip  $\frac{1}{4}$
- Banking institutions (12th century: Genoa and Venice; 15th century: Medici Bank) => banks are important because they finance travels, they had the capital
- Maona (14th century): financial institution that also had a political role, partnership between different merchants that finance travels for trade overseas and they did not only finance, but also established the political power in the land the merchants went to
- Double-entry bookkeeping (15th century)
- Stable currency: Gold Florin

(WHAT FOR?) Financial institutions were important in order to:

- Spread the risk

- Invest in trade
- Make credit
- Facilitate exchange

A money economy is slowly emerging  
Capital is slowly becoming a commodity  
A new rationale underlies the exchange

### **Fairs: Trading Places**

In the 12th-13th century, fairs were central places of trade and exchange (market)

❖ Exchange goods: textiles, leather, fur and spices, etc.

❖ “Financial” instruments were developed

❖ In the 15th century new important trading centers were Geneva and Antwerp

At fairs new financial instruments were used: bills of exchange (promise of payment) => financial goods that were often sold at a lower value than the face value to make profit out of them

Hanseatic league: defensive confederation that allowed German merchants to exploit the benefits from a duty-free trade, protect their mutual trading interests.

**COMMERCIALIZATION OF COMMERCE** => 16th century => commercial revolution, long distance trade increased in volume

Birth of new economic actors

Shift in the economic centers at a world level from the Mediterranean to the North (ex. Dutch, Spanish, Portuguese)

Continuous improvement of financial institution => joint stock companies

Older textbooks described the sixteenth century as an era of “commercial revolution”. As we have seen, there are earlier candidates for that title, but there is no doubt that a substantial increase occurred in the volume of long-distance trade or international trade during that century.

The most important changes that occurred during the next 200 years [16th and 17th centuries], in addition to the opening of the overseas routes, were the shift in the center of gravity of European commerce from the Mediterranean to the northern seas, a slight but perceptible change in the character of the commodities involved in distant trade, and changes in the forms of commercial organization.

From **15th century**, increase in long-distance trade.

In the **16th century**, shift in the centers of commercial activities from Italy to Spain & Portugal to the Dutch Republic

- New commodities

In the **16th-17th century**, shift in the financial centers:

- Antwerp
- Stock Exchange in Amsterdam (early 1600s)
- Creation of national currencies
- New business organizations
- Joint stock

Long-distance trade is the backbone of commercial capitalism (long distant trade is very risky so they looked for a high profit to make it worth it) => overseas trade led to an accumulation of

capital=> commercial surplus is re-invested in other economic activities=> based on the combination of commercial and financial activities (long-distance trade & banking)  
This new mentality led to the commercial revolution of the 16<sup>th</sup> century => more goods were sold internationally => both agricultural and manufacturing goods => commercial capitalism influenced all economic sectors

## FIRST GLOBALIZATION

**New goods** were traded all around the world => they influence the consumption habits of people from everywhere

**New actors** emerged => Spanish, Portuguese and Dutch that monopolized many trading routes, later on also England => change in the center of gravity of the global economy => Venetian power was hindered by the Portuguese competition (Portuguese controlled a great part of the commercialization of spices that came from Asia to Europe, also controlled the trade from Africa) => Spanish established their control on north America => they cared more about political control, they left/delegated the trading activity to others

**Triangular trade** => European arrived in Africa, financed conflicts in the African continent and took slaves from Africa to America in order to make them work in plantations (cotton, sugar, tobacco) => products then imported to Europe  
Entering in a truly global economy

**Joint stock company** => company that sells shares in the market to finance their activities  
First joint stock company: East India company 1600 => 1602 Dutch East India company=> 1621 Dutch West India Company=> 1664 Compagnie des Indes orientales  
Privileged companies => governments granted them special privileges to trade in certain parts of the world or to trade certain goods => they had monopolies over certain routes or goods => not only trade organizations but also political, they often had an army, they could establish political and diplomatic relationship with the territories they were trading with  
These companies lasted until around the end of the 18<sup>th</sup> century.

Opening of new trade routes:

**European Age of discovery** => exploration pushed by the fact that explorers were people willing to accumulate new knowledge on the world, but they were financed by European powers that wanted to find new lands to colonize (take natural resources and establish political power)  
Explorers: Cortes=> discovery of Mexico, Pizarro=> discovery of Peru  
Discoveries made possible thanks to technological advancement => new ships more resistant, compass

Colonization=> Violence (development of the idea of race=> justifying social injustices with physical differences, institutionalization of the superiority of white men)  
Thirst for power in Europe and beyond and desire for empire building.

Globalization

Cultural, political, economic interdependence between countries are also power relationships  
Local network => distant relationships become more important, more resistant  
Standardization => westernization, American model of life

### New worldview:

- The world is perceived as a single economic sphere
- The world is perceived as a global entity
- People started accepting the idea that earth is a sphere as proved by Magellan and his travels (first explorer financed by the Spanish government to explore the world=> very risky, all his crew died)

### “Scientific revolution” => new way of thinking about knowledge

- Mid-16<sup>th</sup>/17<sup>th</sup> century
- Geographical discoveries also fostered a continuous accumulation on knowledge about the natural world
- Natural philosophy => modern science
- View of the world based on empirical basis
- Experimentation as the crucial method of research was pioneered by Galilei, who maintained that the proper way to explore the universe was through repeatable experiments rather than speculation

Inspiration => not only willingness to accumulate richness, but also religious motivation

### Religious Fervor

- Columbus viewed himself as a divine agent: “God made me the messenger of the new heaven and the new earth of which he spoke in the Apocalypse of St. John . . . and he showed me the post where to find it”. In 1498, he affirmed “When I set forth towards the Indies, I did it with the intention to beg the King and the Queen, our Lords, to spend for the conquest of Jerusalem all the riches that they may have drawn from the Indies; and indeed this is what I asked them”.  
Columbus was driven by many motivations: wealth, knowledge, personal prestige, trade, religion
- Diaz expressed his own motives as such “to serve God and His Majesty, to give light to those who were in darkness and to grow rich as all men desire to do.”

Opposition between scientific and religious dimension=> less strong than we perceive nowadays => period of transition

Political order was mostly organized around a religious principle => perspective of western European people

**Discovery of new lands** => new way of defining the political world emerged => the new world were basically free land that any European power could conquer establishing their domain there => this way of thinking was approved by the **treaties of Tordesillas** (establishes the line of demarcation, raya, that establishes that all the lands at the west of the raya were under the control of the Spanish empire) and Saragoza (conflict between Spanish and Portuguese=>definition of another line of demarcation: territories at the east were Spanish, at west Portuguese)  
Lines of demarcation were also approved by the Pope => Spanish and Portuguese empire still recognize the authority of the Pope

**Treaty of Cateau-Cambrésis** (1559): the **Amity Lines** => geographical and legal principle to define the new order from a European perspective => division of Europe from the rest of the world

**! WRAP-UP!**

**14th-15th centuries** => a new way of conceiving exchange emerged=> economic exchange was not focused anymore on self-need, but merchants wanted to make profit out of the economic exchange=> commercial capitalism. The back-bone of commercial capitalism was long distance trade => merchants started to adopt a new mentality over trades => long distance trade was fostered by new businesses and financial institutions=> first banks were born

**16th century**=> change in the type of commodities that were traded, improvement of existing institutions, emergence of new players: Portuguese, Spanish, Dutch

- exploitation long-distance markets
- market-driven production
- commercialization of land
- specialization

Expansion of capitalistic economy along to the expansion of european states=> first globalization

⇒ Time of scientific revolution, new way of approaching knowledge related to nature, new way of conceiving the global political order.

#### **Old world order:**

Spheres of influence organized according to a religious principle:

- Holy Roman Empire
- Islamic Empires: enemy territory to be conquered and annexed
- Pagan people: territory of mission

#### **Global order 1494-1529:**

Spheres of influence organized according to a new geographical and legal principle:

- \* New world IS FREE and ready to be occupied
- \* Rayas (Treaty of Tordesillas and Zaragoza) which created Spanish and Portuguese spheres of influence

#### **Global order 1559:**

Spheres of influence organized according to a geographical and legal principle:

- \* Amity Lines (Treaty of Cateau-Cambresis) which divided Europe from free land and open sea
- \* no peace beyond the line”.

### **Great Divergence**

It is a period (16th and 17th century) during which a new balance of power (both political and economic) took shape and European supremacy developed giving birth to what is usually been labeled as the “Great Divergence.”

Causes: demographic, institutional, geographical

## **MODERN STATE**

**Leviathan, Hobbes** => theory of the State

The frontispiece is a summary of the arguments discussed in the book.

The head of the state should have both the temporal and the spiritual power => sword: temporal power, bishop stick: spiritual power

symbols of the nobility and the church are placed under the colossus, the head of the State, this means he must control all of these people⇒ forces to keep under control in order to avoid the breakout of civil wars.

The civil society is represented in the body of the colossus himself=> Hobbes thought that if people were left without anyone commanding them, they would compete for power and money so they should give all the power to one person

The colossus does not recognize any spiritual authority, no religious derivation of the power of the colossus=> he looks directly at us, he does not look up => his power comes from the people  
It's thanks to the head of state that we can have a peaceful and prosperous state=> he is a **political and economic actor** (he should ensure to the country prosperity and wealth=> wealth became one of the main objectives of the state)

**1648 peace of Westphalia**, end of the 30 years war=> **birth of the modern State**=> the principle of State sovereignty was recognized.

We are going towards a way of defining the political order that is declining the religious power in politics.

The principle of state sovereignty is needed to understand the rise of modern state and it's the base of the new political order.

### Context in Europe

- **1517 reformation** => Martin Luther wrote his 95 thesis, criticize the abuse of power of the Pope and the church, this brought to the birth of new Reformation led to religious wars.  
Holy roman empire=> Charles the V was really catholic and wanted to impose Catholicism on the whole empire, but the different states inside the empire had different religions
- **1555 Peace of Augsburg**=> rules of each State could decide which religion was the State religion (Catholicism or Protestantism) => religious plurality  
Peace of Augsburg: first step towards the principle of State sovereignty=> followed by:
- **Treaty of Cateau-Cambrésis** => amity lines => after the Italian wars of 1551-1559
- **1648 Peace of Westphalia**=> end of the Thirty years war

**17th century**=> age of crisis, stagnation:

- high inflation, population grew more quickly than the agricultural production (not enough food=> increase of prices=> due also to the import of precious metals from Americas and Africa)
- “Little ice age” => the climate became colder=> bad impact on agriculture
- Bubonic plague and thirty years war=> decimated the population

Wages stagnated, unemployment soared, and population declined.

“The Peace of Westphalia created an international system organized on the basis of state sovereignty by virtue of which each political entity is recognized as being sovereign within its borders.”

Peace of Westphalia=> states became more autonomous; many states were recognized as independent (ex. Dutch republic)

**State sovereignty:** autonomy, independent states that made their own rules, within their borders. States have:

- right to create an army and defend its own territory,
- monopoly of legitimate violence (aristocracy can't declare war anymore),
- right to declare war (each State has to recognize the sovereignty of another State, if he does not he can declare war)

- This equilibrium of power is valid only within Europe, overseas land can be freely conquered by European States and became a place where a fight between European States for political power took place

**War is transformed**, it is rationalized and limited=> motivation behind war is not a certain cause (religion...), but it is legitimate only if it is fought against a “**Justus Hostis**” which is another State

War: to protect its borders but also to continue to accumulate power

**Centralization of political power** => carried out through very practical instruments:

- permanent army: (Protection and expansion of borders) and monopoly of “legitimate” violence
- public administration based on larger and more efficient bureaucracies (ensure the control throughout the entire country=> not possible since local powers still limited the power of the sovereign)
- public finance=> necessary to raise capital to finance the activities of the State => public debt, taxation, banks (Bank of Amsterdam in 1609- Bank of England in 1694), financial markets and tools (Amsterdam Stock Exchange in 1602, London Stock Exchange in 1801)
- monopoly of the instruments of justice
- increase ability to compel obedience from subjects
- mobilization of resources

State became a fiscal military machine whose branches could be used to control the citizens, to raise capitals to finance activities, to mobilize people and resources => State: political and economic actor => economic concerns were at the heart of political life, economic growth seen as a political objective

Birth of political economy=> States’ political power as well as international prestige are based on their wealth

Economic nationalism=> **mercantilism**: one country can enrich himself only at the detriment of another country

main objective=> have a positive balance of trades (exports > imports)

- high tariffs on import and prohibitions: States started to adopt high tariffs on the import of goods, in particular manufactured goods and in some cases they even forbade the import of some goods (England=> Calico Acts=> cotton)
- bullionism: defining wealth by the amount of precious metals owned.
- sumptuary laws: any law designed to restrict excessive personal expenditures in the interest of preventing extravagance and luxury.
- increase export navigation laws=> English navigation acts in 1651: declared that only English ships would be allowed to bring goods into England, and that the North American colonies could only export its commodities, such as tobacco and sugar, to England.
- monopoly of colonial trade

## FIRST INDUSTRIAL REVOLUTION

Thomas Southcliffe Ashton, 18th century economic historian:

*“The changes were not merely ‘industrial’, but also social and intellectual. The word ‘revolution’ implies a suddenness of change that is not, in fact, characteristic of economic processes. The system of human relationships that is sometimes called capitalism had its origins long before 1760 and attained its full development long after 1830: there is a danger of overlooking the essential fact of continuity”.*

The First industrial revolution took place over a long time period=> it started in the second half of the 18th century and continued in the first part of the 19th century

We talk about revolution because the changes that it brought were irreversible.

It did not emerge from the void but there were some conditions that made it possible=> long process of capital accumulation (that comes from the birth of capitalistic economy)

Change in the scale of production (not mass production yet, that’s the second industrial revolution)

First industrial revolution=> development of a mechanized production thanks to technological improvement/innovation => increase productivity (produce more, lowering production costs)

It entailed also social changes, a new way of conceiving work (new relationship between the workers and the objects produced by the workers), a new way of conceiving nature (rooted in the scientific revolution of the 17th century), a new way of conceiving knowledge.

## (British) Context

### \* Scientific Revolution:

- Experimental method used for utilitarian purposes: a new approach to knowledge developed (scientific method) that allowed to make technological/scientific discoveries that helped mechanizing production
- Dissemination of science and scientific discoveries: thanks to this revolution, scientific knowledge was diffused within society, it became popular and it touched different parts of the population (non only élites). We can see this also in the language of scientific texts, for example, Galileo did not only write in Latin but also in Italian

\* **Industrial Enlightenment**: => development of useful knowledge: knowledge used to solve concrete issues and to generate technological innovation. Britain was one of the first States to develop property rights to protect inventions=> the creation of property rights is also useful to incentivize innovation and progress

\* **Fiscal-military state and mercantilism**: pre-condition for the industrial revolution since mercantilism (=nationalistic economic policies) was directed towards the protection of domestic economy, to develop the internal industry, and this created an incentive to create more and innovate.

Modern State: machine that developed a public finance and a system of taxation => raise capital=> can be used to finance economy/industry

- Economic policies directed towards the promotion of export (including colonies)
- Economic policies fostering the development of domestic manufactures (e.g. the Calico Acts)

### \* Politics

- Colonial expansion: important because it created new markets (=> oversea lands) and new resources that could be exploited
- Constitutional monarchy vs absolute monarchy: Britain was a constitutional monarchy => the power of the king is limited, the Parliament was vested with power and therefore, it could control the ways in which public funds were used and it could direct capitals towards industrial investment that could make economic life prosperous

※ **Geographical advantage:**

- it's an island so it's less subject to political threats (less risk of invasions at the borders)
- it's well connected with the Atlantic Ocean and the North sea => useful to control trade
- internal geographical advantages: rivers/canals are navigable and there are not many mountains => facilitate the circulation of people and goods (transport raw materials and products) => Britain could rely less on overland transportation (overland journeys were long and not very safe)
- presence of coal mines in Britain=> fundamental as a fuel (one of the reasons why we could argue that the industrial revolution couldn't happen in another place)

※ **Agricultural Revolution in GB** (Increase in agricultural productivity from the end of the 17th century)

- Application of experimental methods to agriculture
- Enclosure (creating controlled environments to optimize the conditions for plant or animal growth) vs open field system
- Bigger farms
- Continuous commercialization of agriculture

※ **Trade and Finance** (Commercial Capitalism), from the end of the 17th century

- English (and Dutch) foreign trade was higher than that of other nations in continental Europe
- Intense commercial competition between the Dutch and the English
- London became a commercial hub and financial center rivaling Amsterdam (continuous competition with the Dutch)
- New joint-stock companies

※ **British Society**: there were more incentive towards innovation (thanks also to the development of property rights)

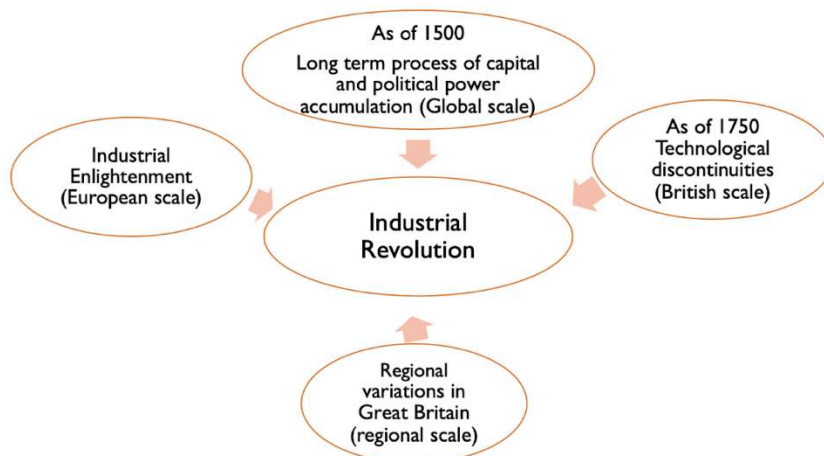
- High wages or availability of cheap labor? Both of them. The fact that Britain had high wages helped the development of technological innovation since it was useful to substitute people with machines. There was also cheap labor available, in particular of women and children (ex. Dickens' books show this social context)
- Increase in population between 1750 and 1850, from 6 to 13 million people=> increase in the demand and consumption of new goods
- Urbanization (London became the biggest metropolis)

- High literacy rate=> technical skills (engineers, technicians, and scientists, skilled workers) become widely diffused => more people were experimenting new technology=> continuous process of innovation
- IPR (patents)
- In *The Unbound Prometheus*, 1969=> David Landes described the British society as such "*exceptional sensitivity and responsiveness to pecuniary opportunity*" => British society was very responsive to opportunities, it had an entrepreneurial character

\* **Improvements in transports** as of the second half of the 17th century: water routes, coastlines, harbors and navigable streams

### \* **Technological Revolution**

- Smelting Iron (coal is used instead of charcoal)
- Steam Engine (James Watt [1763-75])=> by burning coal it was possible to transmit energy to machines and activate them
- Continuous innovation in spinning and weaving technologies as well as bleaching, dying, printing
- Spinning Jenny (1764): invented to spin yard
- Water frame (1769)
- The mule (1784)
- The power loom (1786): loom activated by the steam engine
- Mechanical gin (1793): used to separate fibers from seeds => activated thanks to steam power



The first industrial revolution is symbolized by the development of mechanized production and depended on a continuing flow of innovations and improvement to increase the productivity of machines and labor.

- Industrialization from the mid-18th to the first half of the 20th century
- Decrease role of agricultural activities but increased agricultural productivity

- **Rise of the modern industry** (Industry existed also before the 1st industrial revolution: putting out system)
  1. mechanically powered machinery
  2. new, inanimate source of power, especially fossil fuels (substitution of coal for wood and charcoal)
  3. factory system of production
- Early industrialization within the cotton industry and iron industry but also manufacturing of pottery, chemical industry, coal industry.

Difference between putting out system and modern industry: industry centralized the means of production within factory=> the entrepreneur own all the means of production and hired some workers that worked in the factories => small change in the scale of production  
Modern industry=> continuous process of substitution: men work substituted by machines, substitution of energy sources; rationalization of the working activities within the factories, new organization

## The Dawn of the Factory System

- Organizational and technological change in production
- Concentration of production
- Division, specialization and commodification of labor
- New way of conceiving relationship with the objects produced (the object of your work) => people lose sight of the final product since they are in charge only of a single step (small tasks that gradually became smaller along the 19th century) of the production=> beginning of the alienation of the workers

Increase of opportunities to become rich, increase in the standards of living and of population, but also increase of economic inequalities and social injustices.

## Modern growth

David Landes, *The Unbound Prometheus*, 1969: *'Moreover, this rapid growth was self-sustaining. Where previously, an amelioration of the conditions of existence, hence of survival, and an increase in economic opportunity had always been followed by a rise in population that eventually consumed the gains achieved, now for the first time in history, both the economy and knowledge were growing fast enough to generate a continuing flow of investment and technological innovation'*

**Malthusian trap:** the continuous increase of population destroyed all the economic benefits that were produced by economic (mostly agricultural) advancement=> at a certain point, the growth of population was higher than the increase in the agricultural productivity (not enough food for everyone) => natural decrease in the population. Period of the second industrial revolution=> societies were not victim of the Malthusian trap anymore=> it became possible to sustain a long-term growth

The Industrial Revolution started a period of self-sustaining economic growth based on industrialization and technological innovation. Idea that growth can't be stopped=> idea that society and economic life has to be oriented towards economic growth, wealth=> this belief is not

only driven by practical material conditions, but it has to do with a change in the mentality of society=> idea that progress is something that is unlimited  
This is why Landes titled his book “the unbound Prometheus” =>Prometheus: symbol of progress, progress that is not limited anymore=> it continued to generate himself  
Nature became a resource and not a limit anymore. Human beings as masters and possessors of nature=> nature used for utilitarian purposes

## Industrial Capitalism

The backbone is the industrial revolution, in other words, a rationalization of the industrial activities. What is the relation with commercial capitalism?  
Capitalism continued to expand => shift from commercial capitalism to industrial capitalism  
Backbone of commercial capitalism: trade, commerce, capitals that came from commercial activities were reinvested in other commercial activity.  
Industrial capitalism: capital surpluses are invested in industry.

## Modernity:

transformation that is not only in the production of goods, but is a change in beliefs, society...

Project(s) made of discontinuities = «fractures» between the past and the present:

- Scientific revolution(s) (16th-17th century) => advent of modernity=> provoked by intellectual discontinuity
- Political revolutions (17th-18th century): rise of the Modern State
- Industrial revolutions (18th-19th century)
  - Progress as an ideology (driving force for the creation of a modern world)
  - Empowerment vs mobilization process

## History of economic thought

### BERNARD DE MANDEVILLE

Dutch physician, he went away from Holland and arrived in London => doctor interested on gastric diseases => problems with the fluids, also called humors => humor also deal with feelings, passions => so he is also someone that studied hysteria, depression => today we talk about psychoanalysis, at the time it was linked to gastric diseases

He publishes a little fable that is an explosion on the intellectual thinking of the time => few pages published anonymously then illegally copied in London and spread everywhere => “[Fable of the Bees](#)”

- There was a city of bees, a hive, very respected in the world, big empire, army and economic power => England of the time => most powerful country but also very corrupted => religious are against corruption and start to pray Zeus to stop corruption in the country => Zeus interrogates himself on why they want honesty since they already have everything, they are rich and working => Zeus ends up giving them honesty ( no more lawyers, no more prison workers, people don't

change dresses, furniture => they don't consume much anymore, many people lose their jobs)

- Moral of the fable => "Private vices, public virtues" => it's not honesty that makes a country rich, but luxury, corruption => invisible hand, Adam Smith

Mandeville rewrites his fable with some remarks, in order to explain the meaning behind it

## Remark B:

Alcander: seller, Decio: buyer => we are in London and sugar comes from West-Indies => colonialist world => commercial empire of Europe, big merchants that deal with West-India companies which are monopolies => mercantilist world=> idea that you have to make your country strong with commerce and army, gain more than the others, competition

Alcander and Decio can't find an agreement because both of them want to make the highest possible profit => one wants to sell at the highest price possible and the other wants to buy at the lowest price possible

### **Asymmetrical information:**

Alcander didn't want to accept Decio's price but then he learns that a greater quantity of sugar than what was expected would come from the West-Indies, so he is alright with accepting it now Decio learns that sugar will go up 25% so Alcander's price becomes good, he is ready to accept Alcander's offer at the same time at which Alcander is alright with Decio's price

*"but how desirous so ever he was to sell, the other was yet more eager to buy; yet both of them, afraid of one another for a considerable time, counterfeited all the indifference imaginable; till at last Decio, fired with what he had heard, thought delays might prove dangerous, and, throwing a guinea upon the table, struck the bargain at Alcander's price. The next day they went to London; the news proved true, and Decio got five hundred pounds by his sugars. Alcander, whilst he had strove to over-reach the other, was paid in his own coin; yet all this is called fair dealing; but I am sure neither of them would have desired to be done by, as they did to each other."*

Both of them think that they can take advantage of the other=> Alcander wants to gain more than Decio and vice versa

## Vanity and Self-love

To increase the care and self-preservation, they overvalue themselves. Tendency to overvalue (pride) ourselves brings us to self-love.

The problem is diffidence about ourselves => we need others approval (**vanity**)

It's not because of self-preservation that we arrive to **honor** (pride+ vanity), but it's honor that is essential for self-preservation.

Anyone is vain.

Human being's natural state=> people that are not civilized, never were socialized and met=> if they have the **spirit of superiority** naturally, what do they want from the other? What do they pretend from the other? = to be appreciated and recognized as superior => it's impossible to have an agreement before war if we are like this

*“because of their vanity there would certainly be War before there could be any agreement among them.”*

Even when we do charity, it's for a spirit of superiority=> I want to be praised => if you are nice to the others, it's because you want to be recognized as a good person

Societies are based on **reciprocal flattering** => education is based on flattering (telling a kid that she is a princess, in order to make her do what she has to do), manipulation=> mutual flattering is what makes us sociable which is also what makes us do war before finding an agreement => we arrive to an agreement because we are deceiving each other, we understand that to obtain flattering from the other we have to do the same => no need for a king that sets terror and rules  
Self-liking is prior to self-love => if I don't like myself, I get suicidal  
Horace (Horatio and Cleomenes are the two interlocutors in The Fable of the Bees) says that he wishes to be another person=> but it's not really true  
I can change all my attributes to someone else's, but I cannot change myself entirely => If I have to change my consciousness, I will destroy myself => we are not disposed to change ourselves completely= **preference for ourselves** => until the moment in which we commit suicide, we are implicitly showing that we like to be ourselves (spirit of superiority)

## ADAM SMITH

*“Wealth of Nations”* => 1776

It's considered the real beginning of modern economics.

**Liberalism**=> market is self-regulated => egoistic motives of individuals bring to the well-being of society

**Invisible hand** guides the actions of privates so that even though everyone acts only for their self-interest, they involuntarily contribute to the collective well-being.

First chapter of the Wealth of Nations=> division of labor>= dividing work in small tasks, everyone repeats the same task all day=> more productive => specialization

### Chapter 2 Wealth of Nations

*“It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.”* => explanation of the invisible hand

Everyone tries to have the more as possible, giving back less as possible.

What is the economic principle behind the invisible hand? **Division of labor**=> everyone does different things, and we exchange them => needs are satisfied more and better than if everyone had to do everything for himself

Division of labor is driven by exchange=> division of labor= slow gradual consequence (there was not someone saying that division of labor was more efficient and convincing people to adopt it) Smith is saying the opposite of people before him and after him (according to Smith division of labor is not natural).

He thinks about a primitive society is where there is no division of labor in order to understand how it originated.

Division of labor is limited by the market => much bigger is the commerce, more the people will be able to specialize (more division of labor)

How from exchange comes the division of labor? Since division of labor is not natural, it must have come up from something => lack of division of labor doesn't mean lack of cooperation

*"He frequently exchanges them for cattle or for venison with his companions; and he finds at last that he can in this manner get more cattle and venison, than if he himself went to the field to catch them."*

Smith says that people exchange and then they find out that it's more convenient for them => people don't exchange and specialize because know that they can have "more cattle and venison" => It can't be the opposite because if they already knew the gain of the division of labor then it would be innate, it would always have existed

Men have a natural propensity to exchange.

Pufendorf => naturalism => it's not true what Hobbes says that we are together because of fear, but we are together because of need

Smith=> individuals in the society are independent, they don't need the other => if they are together there is another reason

For animals it's different since they don't have speech and reason=> speech persuades the other to give me something by explaining the advantage

For Smith, exchange doesn't come from interest => interest gives birth to specialization

Wealth of Nations was translated in French (1803) and from there in all the other languages => this translation translates self-love in egoism => Smith doesn't use the word egoism or self-interest => they interpret him in self-interest, as maximization of utility (not what he actually wanted to say)

Smith could have used self-interest if he wanted to => Hume bases his theories on self-interest =>

Smith only uses this word in a negative way to attack merchants

Mandeville => self-love= vanity => we look for flattery, affirmation

**Unsocial sociability** (term created by Kant)=> individuals are not naturally sociable: since we are afraid of the others, in order to reach agreements, we construct society (Hobbes) or we have a spirit of superiority=> need of flattering, reciprocal flattering (Mandeville)

Smith knows that using the word self-love he is using a very controversial word.

Smith says that dogs live by mutual flattering=> they flatter the master to have their dinner=> humans sometimes use this serval attitude but it's more for feudal system rather than commercial society where we are among peers => we don't need to flatter others to have things, we don't have the time to befriend everyone we need => it's not from the benevolence of the butcher that we get dinner, it's because we address to the self-love of the butcher (self-love seen differently from Mandeville, not seen as vanity, it's not self-interest since there are no advantages, so what is self-love for Smith? )

Many scholars see Smith's self-love as a tacit version of Wicksteed's non-tuism, but it's not exactly that.

#### **\*Non-tuism**

Egoism (ego=me)/ altruism (alter=others). Wicksteed (economist of the beginning of the 19th century) said that we have to use another word, not egoism not altruism, but "non-tuism": when I exchange it's not true that I don't have anyone in mind except me=> I can have in mind everyone

except the person with which I'm exchanging, otherwise it's a present => Everyone tries to have the more as possible, giving back less as possible

## The Theory of Moral Sentiments =>1759

=> Smith doesn't need to explain self-love in the Wealth of Nations because he already explained it in the Theory of Moral Sentiments

He is using the principle of sympathy to arrive to redefine the principle of self-love (different from Mandeville explicitly) => Sympathy is not a feeling of benevolence

Adam Smith tries to understand how is it possible that division of labor emerged in society since it's not plausible that it was already known by men before applying it in society=> it's something that people realize by doing => similar to how good manners emerged according to Mandeville Since division of labor could be something that emerged in society=> we have to think of a society where there is no division of labor => everyone is independent, able to satisfy his own needs alone => as it happened in the communities discovered in America (different not necessarily worse, Smith is anti-colonialist, he doesn't want to say anything about superiority rather he focuses on the change of conditions)=> small population so they don't apply division of labor

Division of labor derived from the extension of exchange.

Exchange is not based on the idea of getting from another something I don't have or to have more => exchange is based on the fact that we address ourselves in our self-love (not self-interest) => self-love: vanity? no

### Principle of sympathy

Example: there is a guy on a cable, tightrope walker=> there's a moment in which he is kind of falling => the people down, looking at him react, they are concerned => everyone identifies in the other => propensity to put ourselves in the shoes of others => not exactly empathy

Hume=> sympathy is a kind of sentimental contagious (happy people make me happy) => Smith says that it's not like this => it depends on why they are happy or sad

**We identify in the person** => see the situation and see if we would react in the same way or not => **if we would react in the same way, we sympathize**, we share the sentiment, otherwise we disapprove => create a theory of moral sentiments=> create a theory of morality through the sharing of sentiments => moral judgment of the other: approval or disapproval of their behavior The others look at us and are judging us =>if we are alone without the others, since we don't have the identification with the others and the moral judgment, we don't have the moral consciousness on ourselves => our own consciousness is the product of the fact that we are with the others => it emerges only when we are in the society => the others are the mirror (we are not the mirror of the others in the sense that we conform with the others)=> we can see ourselves with the eyes of the others

It's preferable to know that others have agreeable sentiments towards us=> it gives us pleasure => we look for the sympathy of the others => that's how Smith explains Mandevillian self-love (how self-love as vanity happens explained through the principle of sympathy)

### Self-love for Smith

We want the love, the sympathy, the approval of the others because it gives us pleasure=> but it doesn't always happen

When we are kids, we want approval from parents who we see as superior so they are right; while when we are in school, among pairs=> how can we know who is right? Disagreement => from this disagreement among pairs we need to imagine how someone that is not me, but not the other (so someone impartial) would judge the situation => internal separation (I think as if I was in another situation far from me to judge and think how such third person would react if they were me=> if they would react in the same way: self-approval so I don't care about the disapproval of the others since I am okay with my own consciousness (my **imaginary impartial spectator** agrees with me), if they would react in a different way: self-disapproval) => this way I can judge myself without being dependent on the judgment of the others

**1° self-love= vanity => LOVE OF PRAISE**

**2° self-love=self-approval => LOVE OF PRAISE-WORTHINESS** (similar to the Freudian super-ego=> It's not that I interiorize the social norms, but it's the fact that even if I am alone, I will act morally since I have the super-ego)

**3° self-love: deserved self-approval=> LOVE OF DESERVED PRAISE=>** looking for the approval of others which is based on the approval of myself => I look for the approval of the others but not at any cost, only when I know that I deserve such approval => accord with the others that's different from the mandevillian one, true accord

Unlike Wicksteed's idea of non-tuism, deserved approval as motive for exchange takes into account the interests of both parties in exchange, aiming at that equivalence by virtue of which the deserved praise of each party can be recognized.

## Origin of the division of labor

Smith associates propensity to exchange—which gives rise to the division of labor—with the **faculty of speech** and the desire to persuade others =>Speech is something that we use to open to the others in order to gain their approval => different from how Mandeville sees it (he sees speech as a way to impose one's superiority over the others, to persuade them for our interests)

Smith sees speech as deriving from the desire to be truly believed and appreciated, or in other words to be considered creditworthy and praiseworthy also by the others (not only by oneself), and thus from regard for the truth.

Dogs don't speak because they don't exchange => they don't have the propensity to exchange => they only have the first kind of self-love

What does it mean to address to the self-love to the others (third kind)? => show that we appreciate him by giving something that needed an effort from me, we recognize their work and the importance of it, so this encourages to continue doing this work and exchanging more => by how much/what people give me, I understand how much they appreciate me

The others recognize my ability to the point they are disposed to give me something in exchange that I perceive as the same value.

**Every proposal of exchange is a proposal of an equivalence** => if we accept it, we agree in the equivalence, so we agree in the appreciation of the other (recognizing the service of the other, give them approval) => both appreciation for me and for him

If the other is obliged to accept my proposal, his acceptance is not a confirmation of my self-approval, it is so only if he is free to accept and not conditioned (ex. Blackmail or monopolies=> lack of this morality)

We are not in the situation of “Do ut des” (I give you so you give me) => I accept what you give to me in order to be appreciated and continue doing what I am doing.

**The exchange is not kind of war** (try to obtain the max and give the min) => the equivalence is what we look for, equivalence in which we are both recognized in our merits (equivalence = price)

## Harmonic society

Harmonious society (everything is based on mutual love, benevolence => this is the ideal Christian society), harmonic society (we are together not because of fear or need of the other but because it's a pleasure to be with the others=> pleasure of finding an accord with the others that is based on our internal accord => accords are not obligatory, but are possible and desired)

Harmonic society => it's not a society where there are no conflicts => disagreements are possible, only when disagreements are possible agreements can be true agreements => if people are not free, obliged to accept a situation=> problem? => depends on the state of society: early or advanced state (advanced: there is division of labor); declining/stationary/progressing state of society

### Early vs advanced

- The hunters exchange in line with equalization => chapter 6, hunters exchanging
- Early state of society: no property of land, division of labor and accumulation of capital  
2 dears = 1 beaver => 2 hours, price based only on incorporated labor
- Advanced society=> price based on wages, profit and rent (deduction from the value)
- The gardener that is also owner of capital and rent => thinks that he is paying himself only the wage, but he is also paying himself rent and profit => Additional theory of value => it's an addition not a deduction (we also recognize risk, hardship...)
- Theory of value in the early society is different from the advanced society.

You are establishing with me how much => **the price is decided in the exchange**=> not previously => not objective but based on reciprocal recognition

If we disagree=> we don't exchange=> but we can disagree

If someone is obliged to accept something=> problem of the advanced society => difference in bargaining society or authority that decides the price= no true recognition

How do we solve this problem? The question depends on the State of society:

- Declining/stationary society: state where everyone is losing hope for ameliorating their condition => general economic crisis => conflict between wages and profits => masters easily combine among themselves to compress the wages, since they can, they will try to do it, also tacitly=> since they have the possibility to pay less and the others are in the need, they can make profit out of this

- Progressive state: economic growth, masters need the workers because they want to grow the production => masters in competition among themselves, combinations go down => masters and workers are in a more equal position=> they can negotiate( third kind of self-love => recognition from the worker of the risk that the master has by putting down the capital, recognition from the master of the worker's efforts)= hope to ameliorate our conditions

We establish how much is the natural rate of wages, of rent => no inequalities in bargaining power=> equality permits to really agree  
Price is not the result of the market=> it's already established in the single negotiation => I want the market price to reflect the natural rates of wages, profit, and rent, at the time and place in which they commonly prevail => I don't know if I will obtain it or not=> maybe there are more consumers than I thought and not enough supply (I sell at a higher price=> average price higher) => I will arrive with more quantity, until I sell all the quantity at the price that I envisioned

*“When the quantity brought to market is just sufficient to supply the effectual demand and no more, the market price naturally comes to be either exactly, or as nearly as can be judged of, the same with the natural price.”*

The “effectual demand” is the demand of “those who are willing to pay the natural price” that is the demand of those who are willing to recognize the praise deserved for “raising, preparing, and bringing” the commodities.  
The price is established naturally by the people in the negotiation, not decided by the market.

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**GABRIELE CARDINALE**



+39 320 2126708



@kings\_gabb



**CHIARA TUA**



+39 347 9789059



@chiara\_tua