

# Economics 2 Spring 2014

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<http://delong.typepad.com/sdj/econ-2-spring-2014/>

# **Economics 2 Spring 2014: A Little Intellectual History**

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# Let's Start with Aristotle: "The Philosopher"

- "There are two sorts of wealth-getting... one is a part of household management, the other is retail trade: the former necessary and honorable, while that which consists in exchange is justly censured; for it is unnatural, and a mode by which men gain from one another..."
- "A general account has now been given of the various forms of acquisition: to consider them minutely, and in detail, might be useful for practical purposes; but to dwell long upon them would be in poor taste.... There are books on these subjects by several writers ..."
- Shepherds are '...the laziest [of men]... lead an idle life... get their subsistence without trouble from tame animals...'

# How Does Aristotle Think You Should Become Rich Enough to Be Comfortable? I

- Thales... was reproached for his poverty, which was supposed to show that philosophy was of no use.... He knew... while it was yet winter that there would be a great harvest of olives in the coming year; so... he gave deposits for the use of all the olive-presses in Chios and Miletus.... When the harvest-time came, and many were wanted all at once and of a sudden, he let them out at any rate which he pleased.... Thus he showed the world that philosophers can easily be rich if they like, but that their ambition is of another sort.... His device for getting wealth is of universal application... the creation of a monopoly...

# How Does Aristotle Think You Should Become Rich Enough to Be Comfortable? II

- Is there any one thus intended by nature to be a slave, and for whom such a condition is expedient and right?... There is no difficulty in answering this question... that some should rule and others be ruled is a thing not only necessary, but expedient; from the hour of their birth, some are marked out for subjection, others for rule...
- [I]f every instrument could accomplish its own work, obeying or anticipating the will of others, like the statues of Daedalus, or the catering serving carts of Hephaestus... the shuttle would weave and the plectrum touch the lyre without a hand to guide them, chief workmen would not want servants, nor masters slaves....

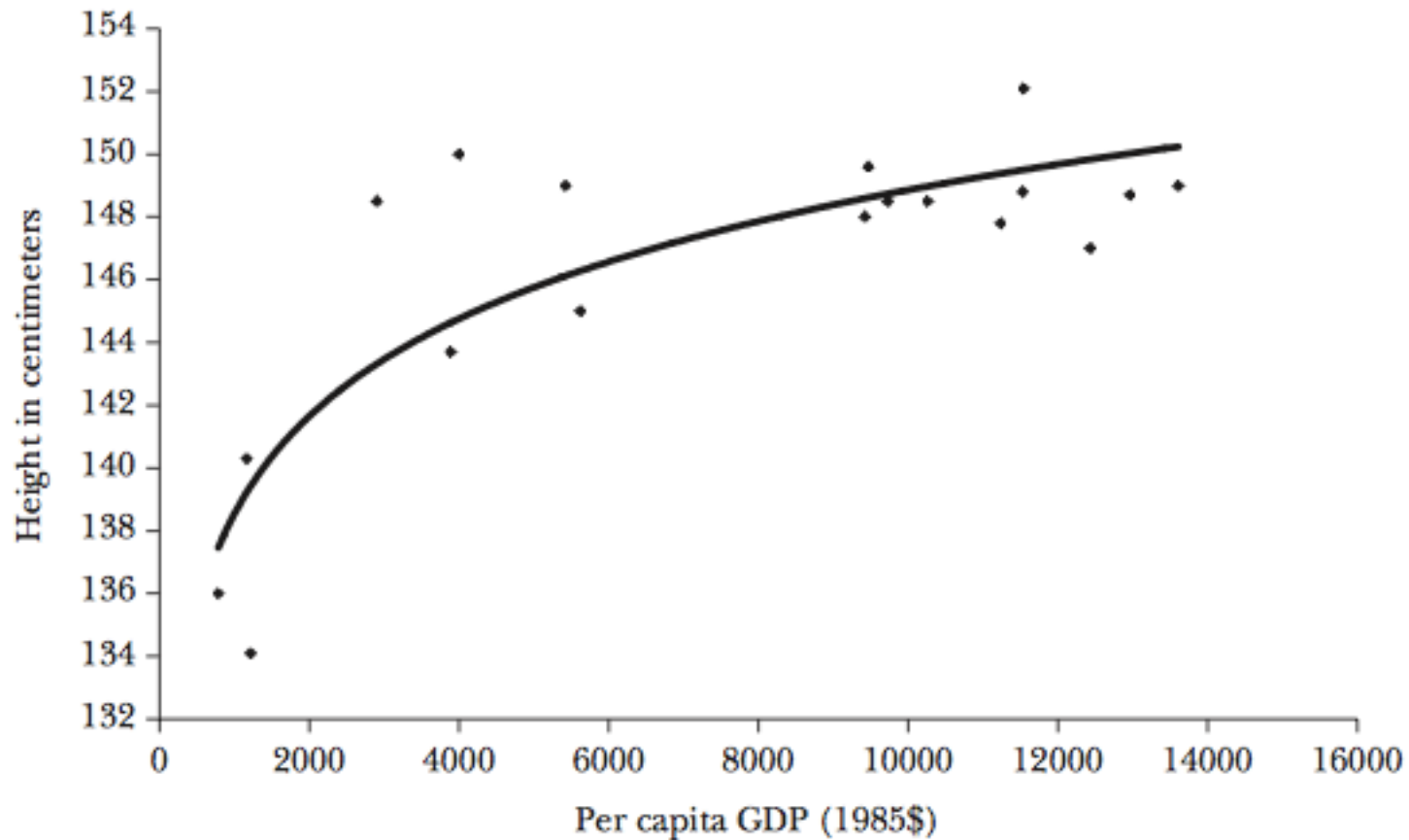
# In General, Ancient Ain't Primitive, Is It?

- Could we teach:
  - Themistokles or Augustus much about politics?
  - Homer much about writing poetry?
  - Gaius Julius Caesar or Leonidas much about generalship?
  - Sophokles much about drama?
  - Phryne much about presentation-of-self-as-celebrity?
  - Michelangelo di Lodovico Buonarroti Simon much about painting ceilings?
  - Praxiteles much about sculpture?
  - Johann Sebastian Bach much about music?
- Yet technological progress and economics seem to be different—areas where we have a serious edge. Why?

# Health and Wealth

Figure 3

Real per Capita GDP and Average Height at Age 12 of Boys



Source: Calculated from data in Eveleth and Tanner ([1976] 1990) and from the Penn World Tables.

<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.22.1.129>

# Demography Before and During Modern Economic Growth

## Human Populations Before and During MEG

<i>Year</i>	<i>Population (Millions)</i>	<i>Generational Growth Rate</i>
-40000	0.1	
-8000	5	0.31%
1	170	1.10%
1500	500	1.80%
1800	750	3.38%
1900	1500	17.33%
2014	7138	34.21%



# Inferring from Demography and from Recent Measurements...

## Human Economic Growth

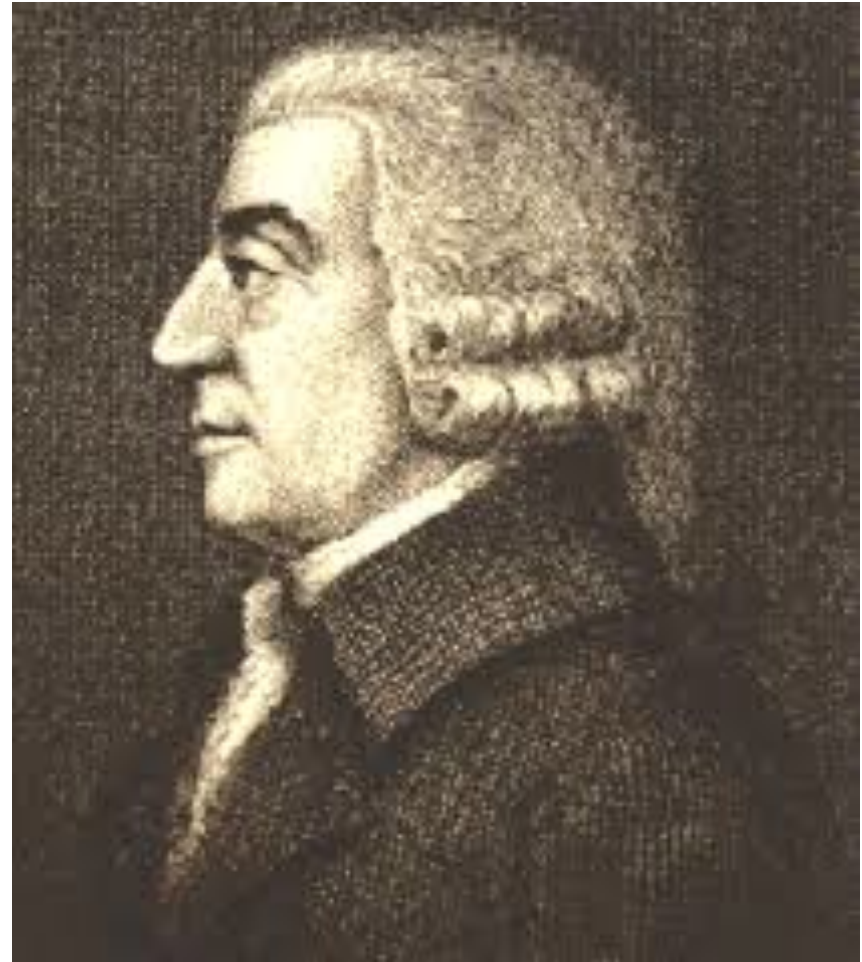
<i>Year</i>	<i>Population (Millions)</i>	<i>Population Growth Rate</i>	<i>GDP per Capita (Guess)</i>	<i>Income Growth Rate (Annual)</i>	<i>TFP Growth Rate*</i>
-40000	0.1		\$700		
-8000	5	0.01%	\$700	0.00%	0.00%
1	170	0.04%	\$700	0.00%	0.01%
1500	500	0.07%	\$700	0.00%	0.01%
1800	750	0.14%	\$847	0.06%	0.09%
1900	1500	0.69%	\$1,693	0.69%	0.83%
2014	7138	1.37%	\$12,700	1.77%	2.04%

# Political Oeconomy

- "Oeconomy, in general, is the art of providing for all the wants of a family, with prudence and frugality. What oeconomy is in a family, political oeconomy is in a state."
- What to do to keep the state well-funded, its tax coffers full, and the taxpayers flush.
- "Govern... to create... reciprocal relations and dependencies... so as to make their several interests lead them to supply one another with their reciprocal wants."

# Adam Smith

- In 1776 publishes his genuinely game-changing insight:
- The “system of natural liberty”
- “Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice: all the rest being brought about by the natural course of things”



# After Adam Smith

- **Classical Economists:** Ricardo, McCulloch, Senior, Mill (James and John Stuart), Say, Bastiat...
- **Marxist (and Other Socialist) Economists:** Marx, Engels, Proudhon, Sismondi, Hilferding...
- **Marginalist Economists:** Jevons, Edgeworth, Walras, Pigou...
- **Macroeconomists:** Say, J.S. Mill, Bagehot, Wicksell, Keynes...

**SLIDE DECK BREAK**