Econ448 Lecture #6

Outline of today’s lecture

1. Quiz: Substantive question: what is the role of the price of labor in Britain in the industrial revolution?

2. Correction from last time: Jamestown founded in 1607 as stated by student and \textit{not} as claimed by me as 1604. My apologies to the student and to the class. I am embarrassed and chagrined at my mistake.

3. We ended Tuesday’s lecture discussing Modes of production. I continue that discussion.
   
   • Capitalistic mode: dominance of wage–based labor, private ownership of the means of production; distribution of goods and services by market based prices. The owners of the means of production are the “residual income claimant”. They receive the surplus after all the factors of production have been paid for their service. Hence, the owners of capital receive the surplus. And it is the surplus that builds the owners’ wealth.
   
   • Tributary–producers posses their own means of production, but surplus taken through extra–economic means (i.e., through political power).

4. Example of an English manor: an example of feudal village. Peasants and lord have rights and obligation.
   
   • I am spending time on the manor system now to illustrate the importance of commons, and collective decision making on crops and farming decisions. And to emphasize the tributary nature of the feudal system.
   
   • Lands owned by lord (nobleman). Manor split into the lord’s plots, the peasants’ plots and common land. Approximately 25 to 30 percent of the manor was the lord’s demesne which included arable land, some pastures and meadows. The holdings of the peasants was called the manse.
   
   • The lord was responsible for the life and safety of the peasants attached to the manor. He hired knights (lower level of gentry) to fight and protect the manor. Knights had to provide their own horse(s), saddle and military gear. The knights swore fealty to the lord.
   
   • Peasants were obligated to provide labor services to work the demesne before work in their own holdings. Servile tenants worked three to four days on the demesne while freehold laborers had lower service obligations.
• The peasants shared output from the manor. Arable land was split into strips and subdivided into plots within strips. Peasants with land held a right to a share of the output from the manse. Peasants shares were not contiguous but spread across all fields within the manse. This structure reflected the three-field system (so peasants received a share each year) and that the peasants had to pool oxen and other resources to do the intensive tasks of planting and harvesting.

• Livestock grazed on common lands and the stubble of fields after harvesting.

• Besides the work obligations on the Lord’s enclosed demesne, peasants were required to be (frequently in–kind) a number of small fees. For example, a peasant may provide the lord with a few chickens or a lamb at Christmas. Peasants were also expected to use the lord’s mill, winepress, and oven for which they paid a fee and were subject to justice (at a fee) in the manorial court. While there was great variability from region to region in obligations and structure, historians estimate that roughly 50 percent of the peasant’s produce was paid to the lord.

• The feudal manor system stood the test of time, because the Middle Ages were violent times with villagers in need of protection from all sorts of competing bands of outlaws.

• The breakdown of the Roman Empire left a void with no central authority to provide an orderly and lawful society. Law and order was a strictly local business.

• Understand that the manor did subsistence farming — producing enough to provide for the peasants, gentry (knights) and lord of the manor. Yields were low and a large share of the output (in the neighborhood of 20%) had to be held over in seed for the next crop. A sequence of a couple of bad harvests would stretch the system to its limit and famine was an ever present concern and event.

5. Overview of some key historical events

• The purpose to provide a broad brush of events to broadly characterize the historical environment.

• 16th century—the age of discovery. The Muslim empire closed the Silk road to the east, effectively ending the over land spice trade between Europe and Asia. The hunt for a sea route to Asia began and gave rise to the many explorers we learned in grade school: Columbus, da Gama, Cabot, Cartier, etc.

• 17th century—Reformation and Counter–Reformation lead to violence and religious wars through out the century. Luther posted 95 theses in 1517. Rise of Protestantism follow. Protestant strong in Switzerland (e.g., Calvin), northern Germany, the low–countries (to become the Netherlands), England and Scandinavia. France, Spain, southern Germany remained Catholic. Politics aligned with religion (e.g., England and Henry VIII’s need for a male heir) to deepen and harden divisions. The Thirty Years War 1618–1648 devastated central Europe (predominately modern day Germany). Civil disruptions and war led to famine and disease epidemics. Population declined.

• English Civil War — Charles I executed in 1648 (check date), Cromwell and Interregnum from 1650–1660. Monarchy restored with Charles II in 1660 (time of John Milton). Second English revolution, the Glorious Revolution 1688 led to the abdication of James II and the reign of William and Mary from Orange (Dutch). Glorious Revolution bloodless and established the dominance of Parliament over the Monarchy.
• 18th century — age of enlightenment. Writers Locke, Rousseau and the importance of the individual (and hence liberal) versus the centrality of the group (and hence conservative). Age of Enlightenment the importance of science to discover the laws of the physical world. Rationality over religion.

• The long eighteenth century 1685–1815 witnessed war between England and France in half of the years. Battles were mainly fought in Europe but their scale was worldwide. In America the French and Indian War (ended in 1763) is part of this sequence which England won. England received French Canada among other benefits. The cost of this conflict in particular led to the Stamp Act and Tea Act inciting the American colonists and ultimately the American Revolution (ended in 1783). French Revolution and the end of the Absolute Monarchy (Louis XVI and his wife of Maria Antoniette executed in what would become the Reign of Terror). Napoleon Bonapart rises to power as France returns to the most powerful European nation. Napoleon wars 1800–1815 and Napoleon defeated at Waterloo and exiled (for the second time).


• Mercantilists (e.g., Cantillon) advocated that the primary goal for a nation’s rule was to secure a positive balance of trade. That is, exports exceed imports. A positive trade balance results in an in–flow of bullion and silver. Merchants taxed or fees set by royal (national) government provides monetary resources to support nation building.

• Mercantilists were not capitalists, as the surplus from trading was generated by monopolies created by the crown. Surplus expropriated by government and was not fully controlled by the merchants to reinvest in business. Purpose of mercantilistic was to benefit the State not the merchants or a country’s population.

• Not a system of free trade, but rather companies were chartered by king (or central authority) to have a monopoly in a region or specific commodity (e.g., cotton, tea, furs). As monopolies, companies extracted maximum profit from allocation. This lead to a misallocation of resources and an important economic deficiency noted by Smith (and others).

• As a tributary system encouraged “rent seeking” and dissipation of surplus in non–productive uses; e.g., competition to obtain royal charter. Granted based on political importance or ties to monarchy not on economic ability.

• Countries used force as necessary to promote advantage of own merchants. Best example, Anglo–Dutch wars in 17th century. Dutch had better financing and better textile technology which made the English non–competitive. First Anglo–Dutch War (1652–1654) fought to reestablish England’s position in woolen trade.

• Navigation Acts (1651, 1660) in England stipulated that all trade with England and with its colonies (initially North America and West Indies and later India) had to be done in English ships. Stimulated England’s shipbuilding industry. England a small country became to have the largest merchant fleet during the eighteenth century. Importance of trade to the English economy by the nineteenth century motivated England to build the largest and more powerful Navy in the World. In the 19th century was the Pax Brittanica as the English navy ruled the sea lanes world wide.