

Intro and Microeconomics

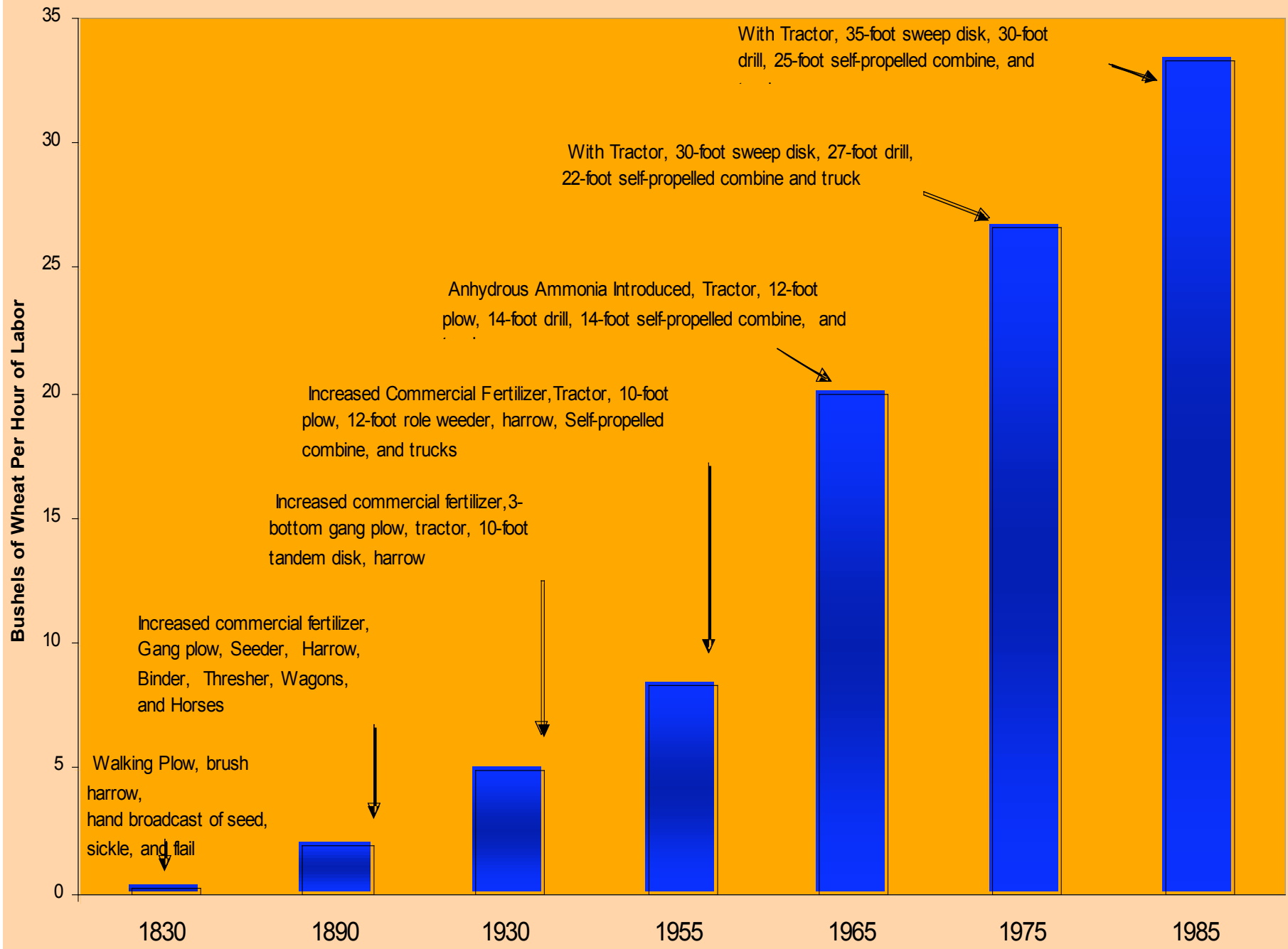
Suresh Naidu,

Center for Popular Economics

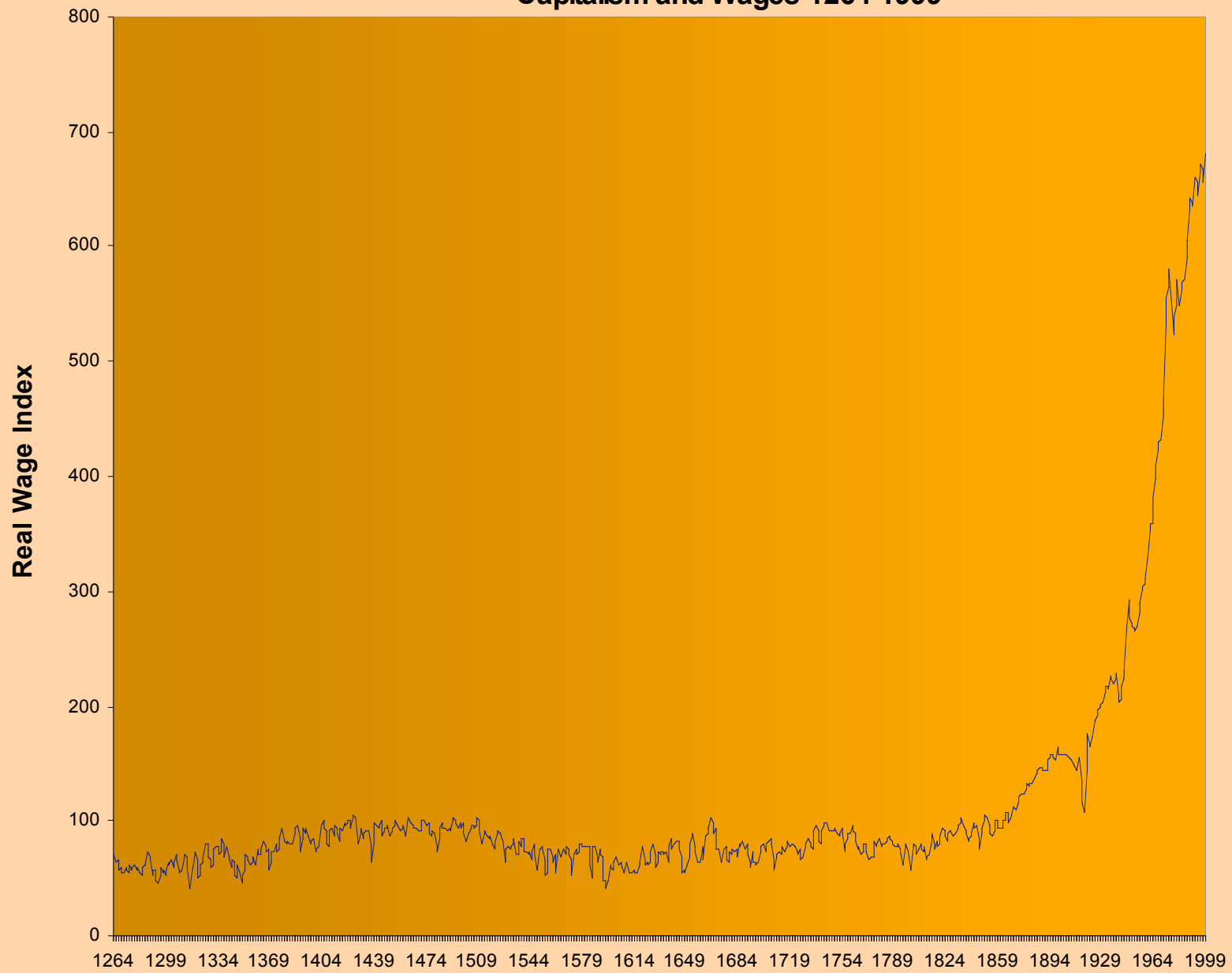
Why this class?

- Palak and Michelle asked me to.
- Often economics comes across as weird and abstract and only understood by experts
- Radicals should understand the nuts and bolts of economic politics and policy.
- Long tradition of lefty econ that is often buried.
- Lots of material in short time!

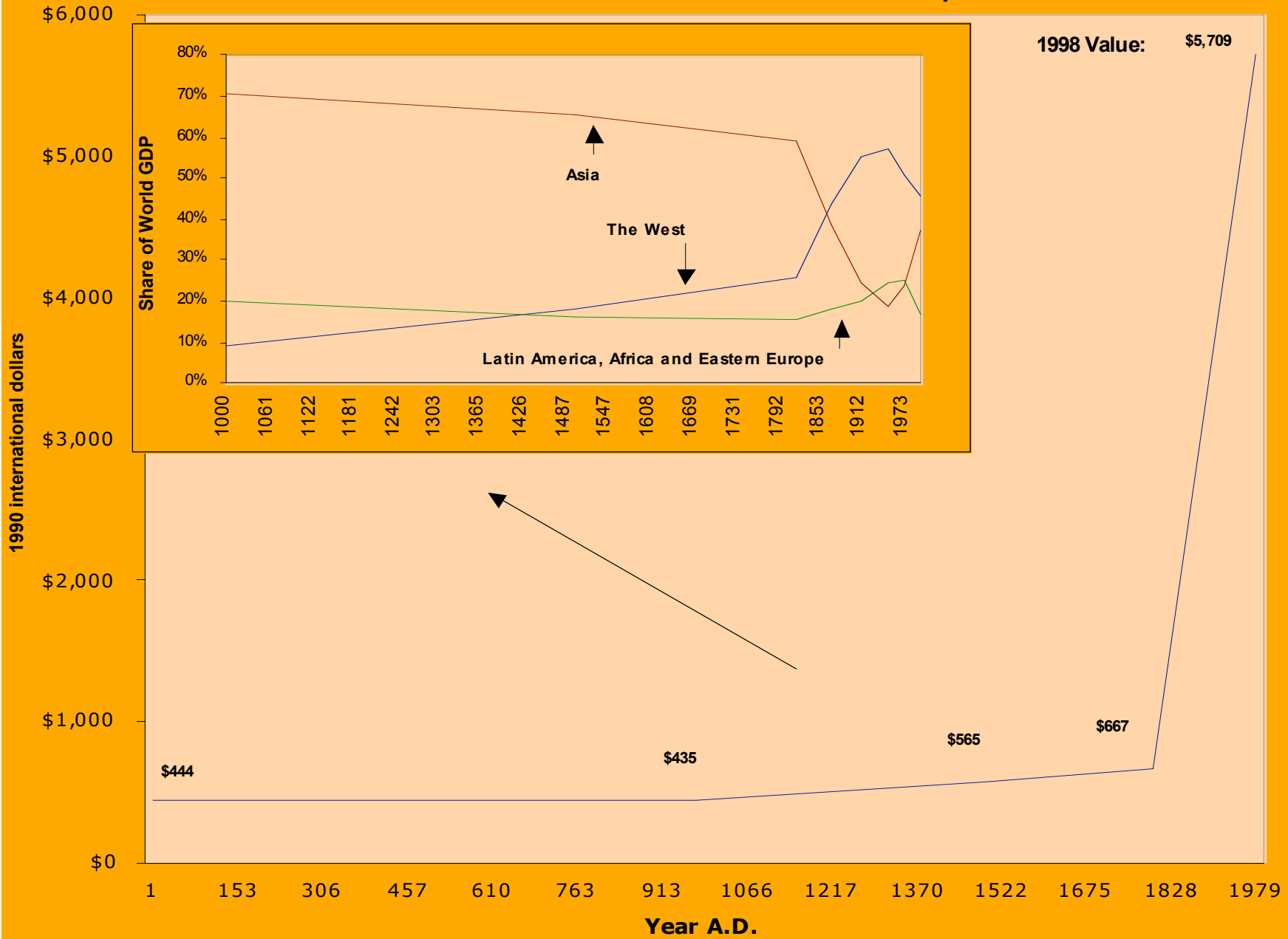
Prologue: Historical Capitalism in Pictures



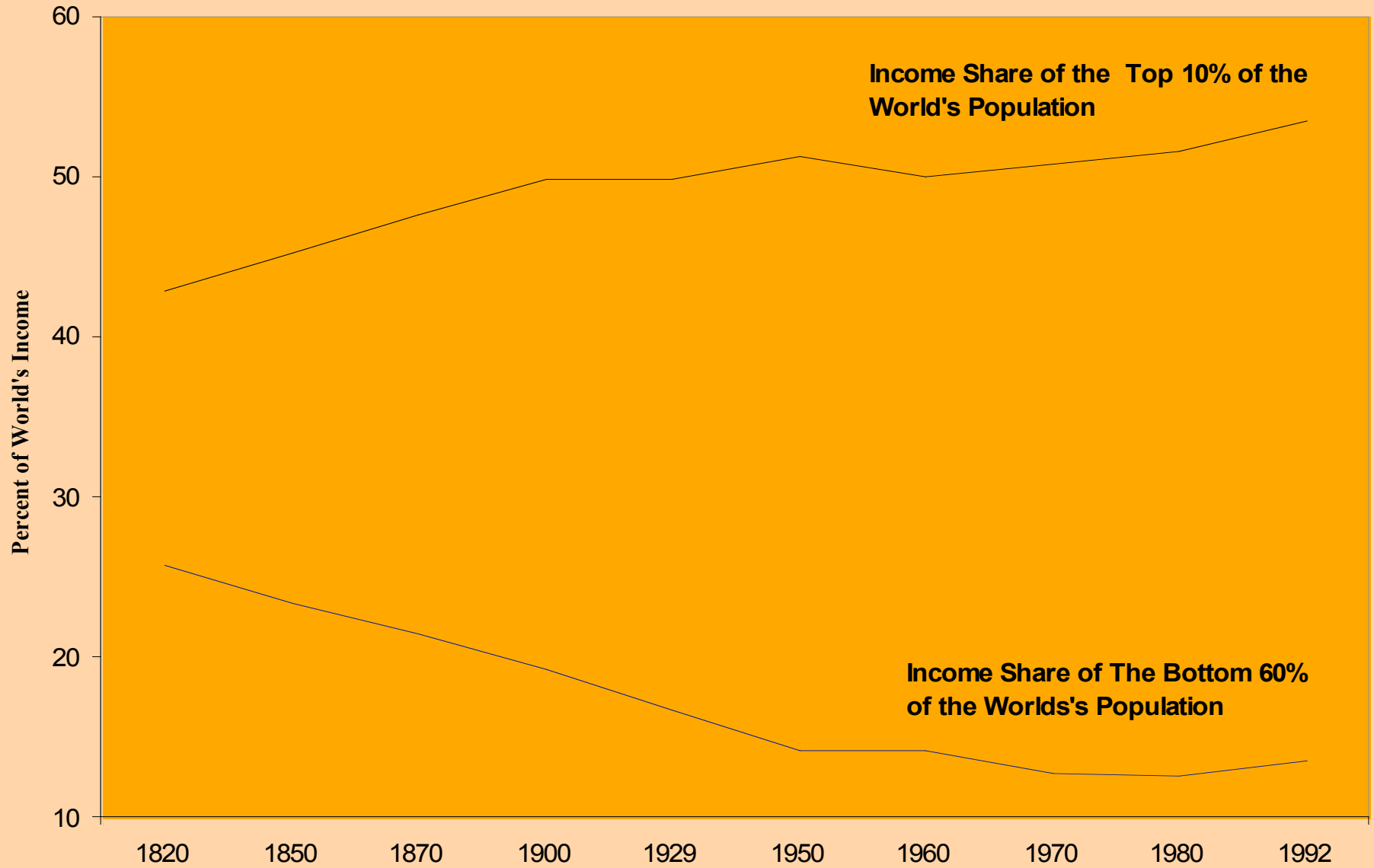
Capitalism and Wages 1264-1999



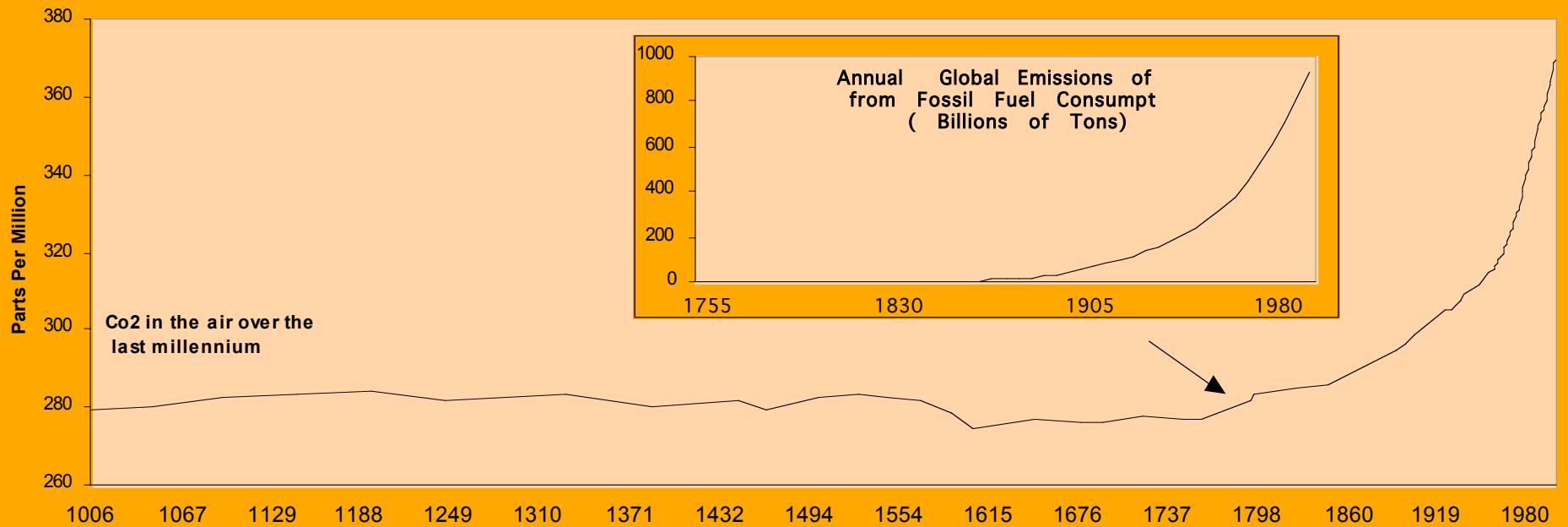
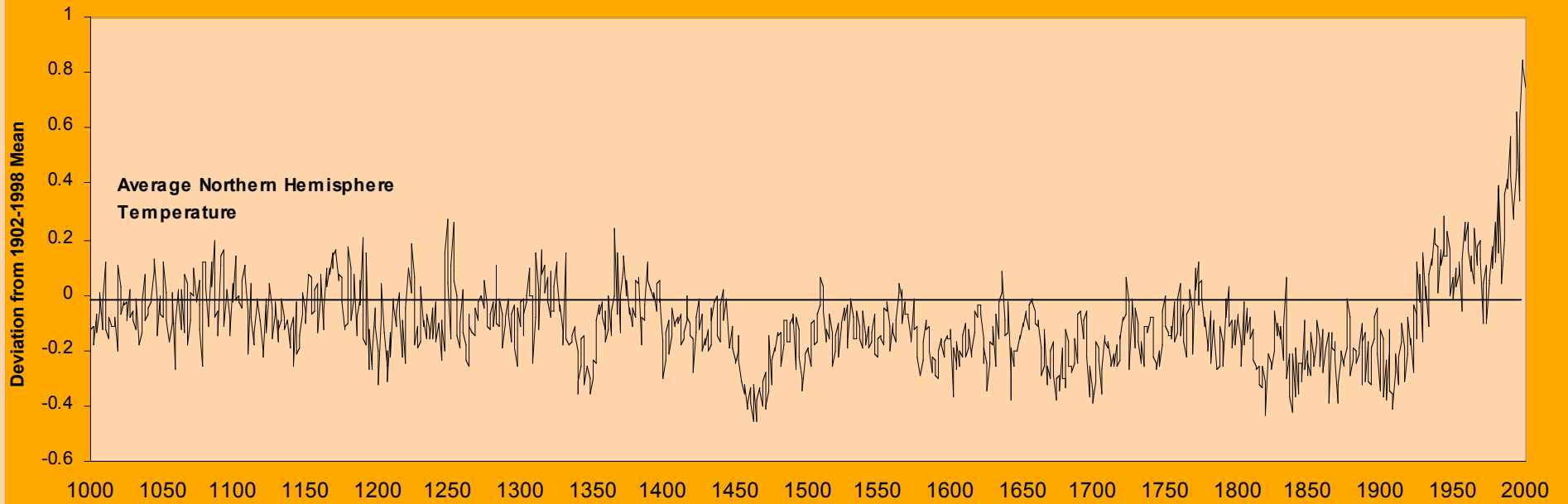
Two Millennia of World GDP Per Capita



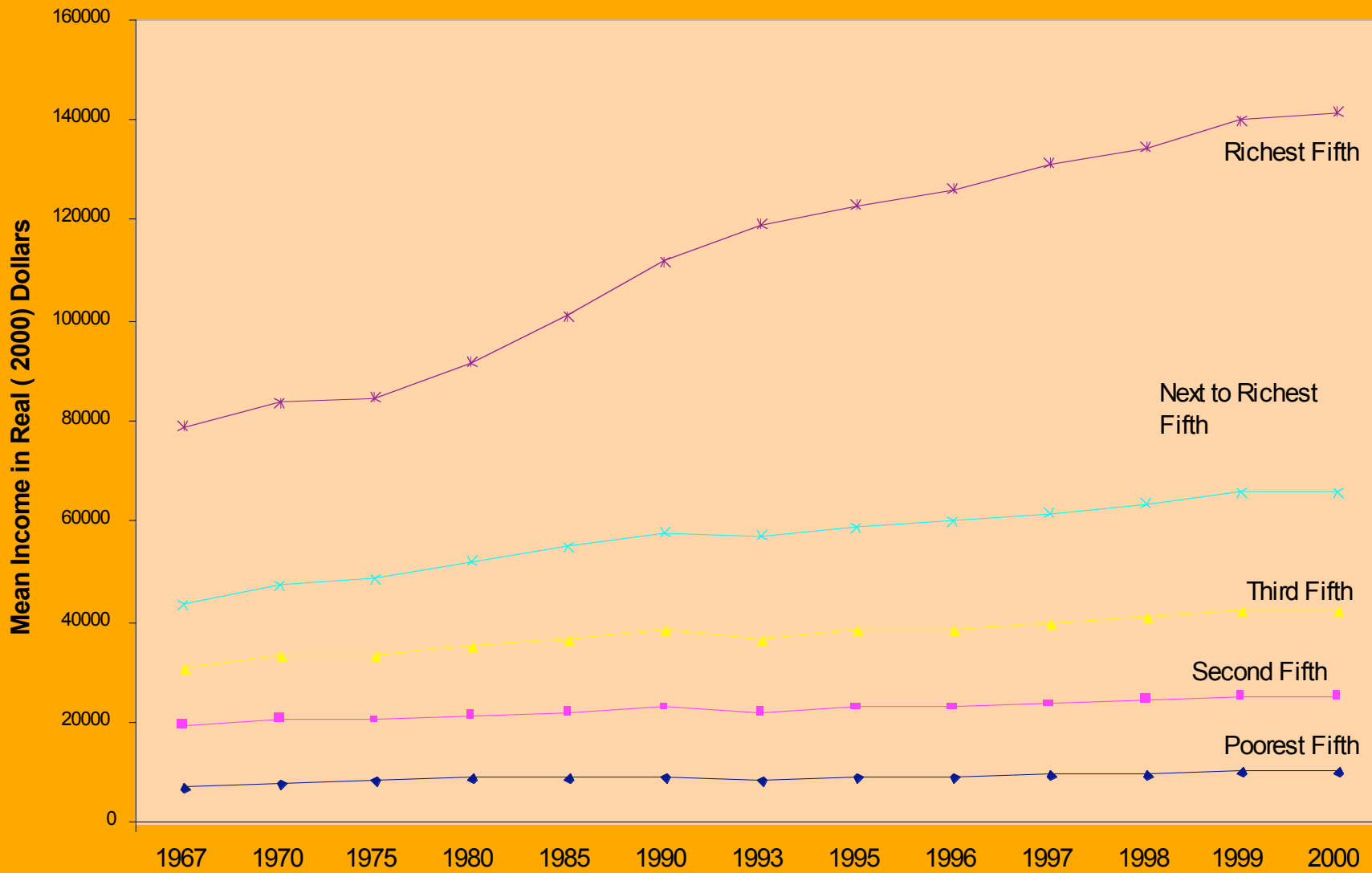
Growing World Inequality



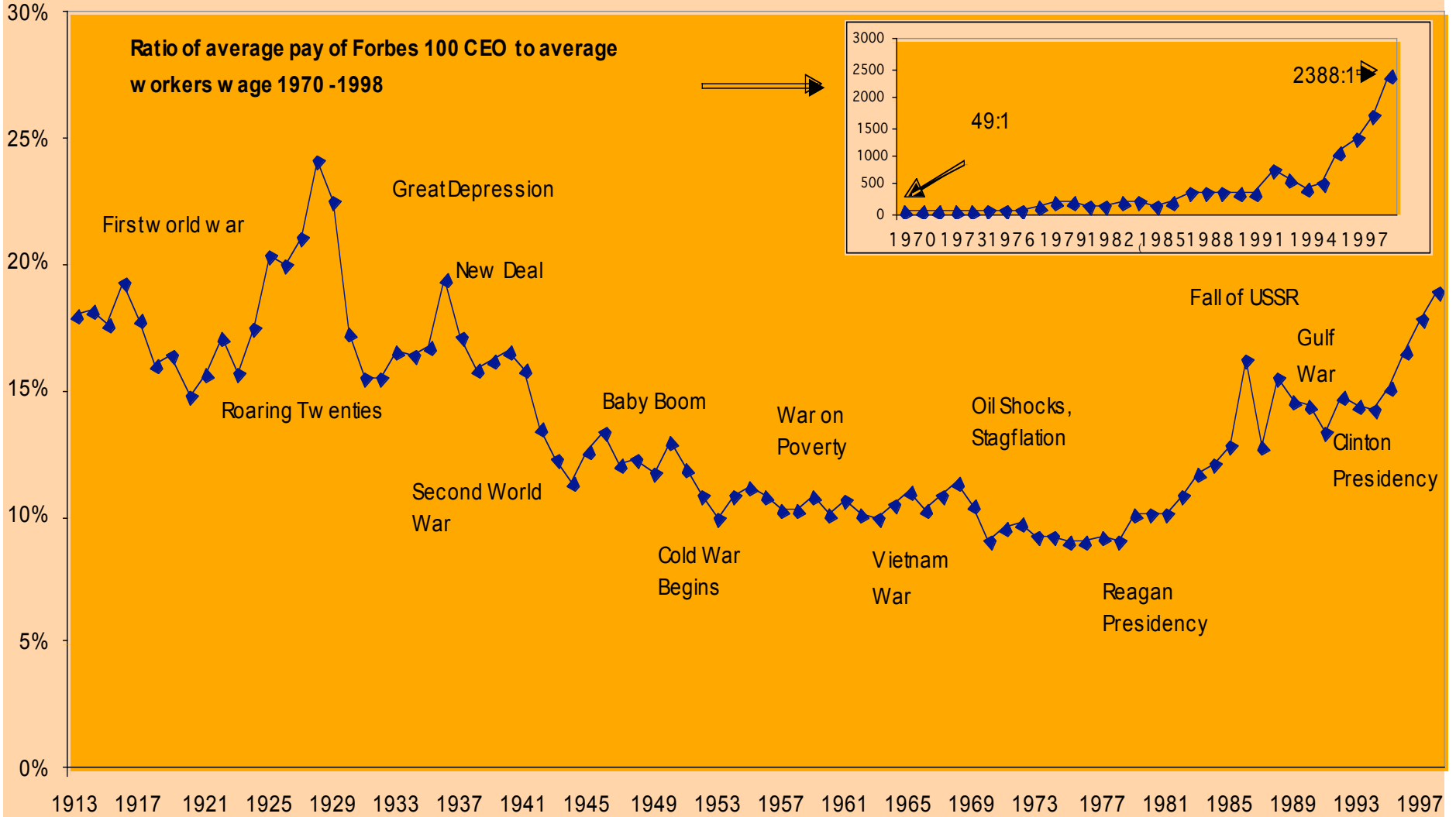
A Revolution in Global Climate: Fossil Fuels and Global Warming



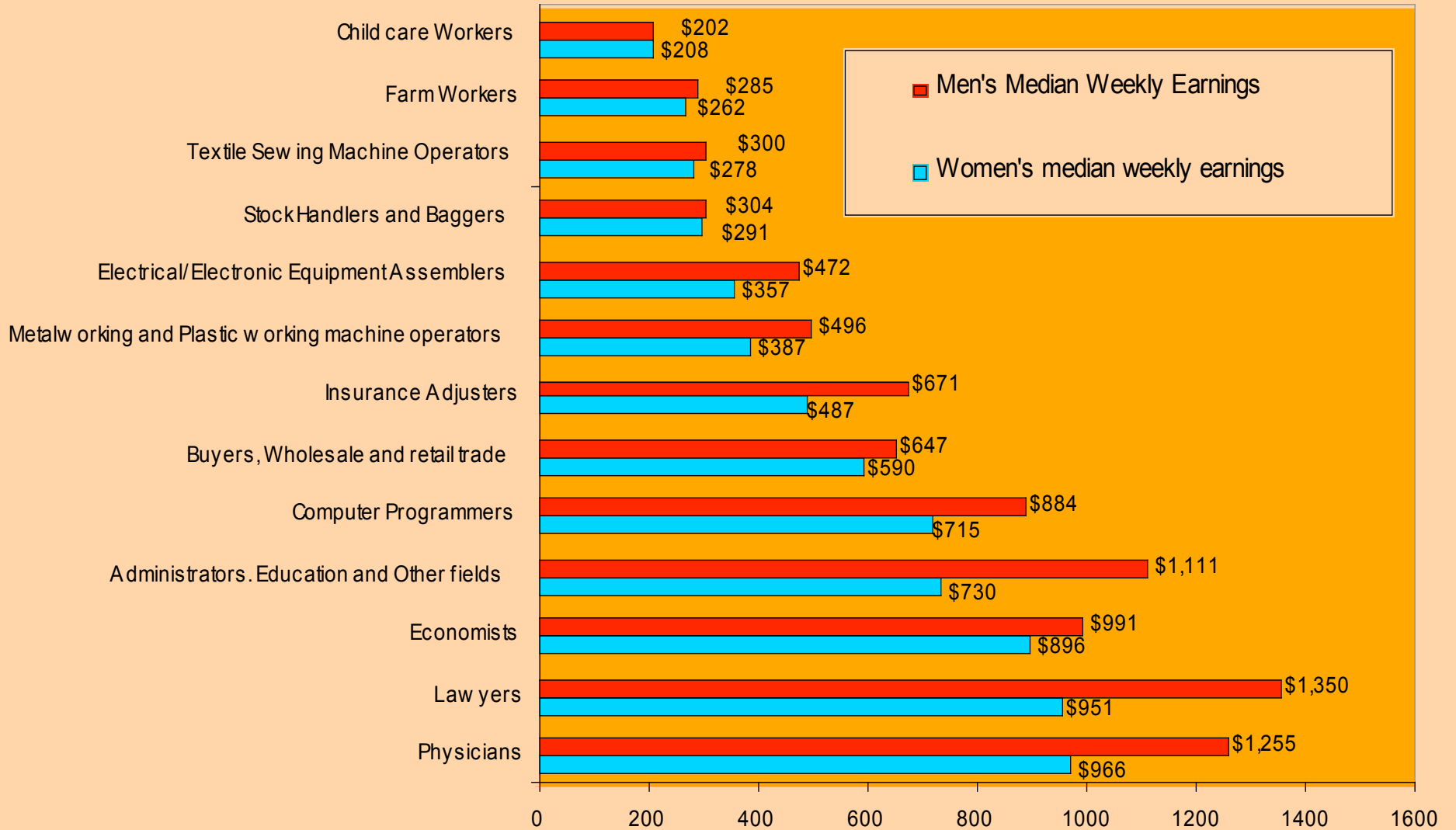
Growing Inequality



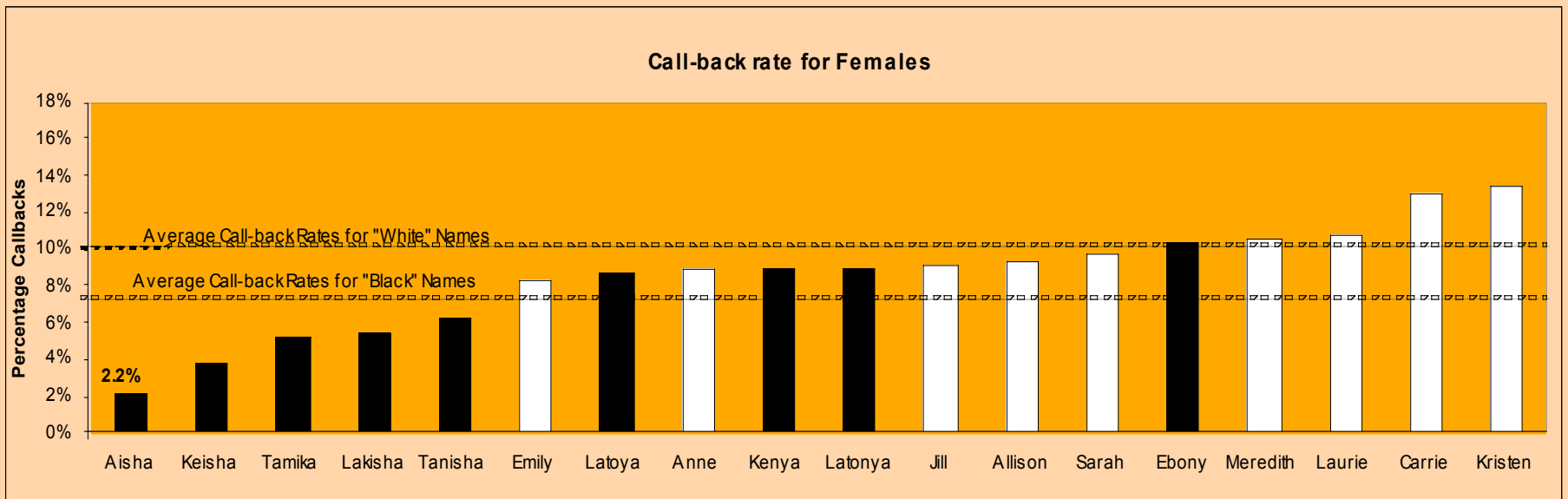
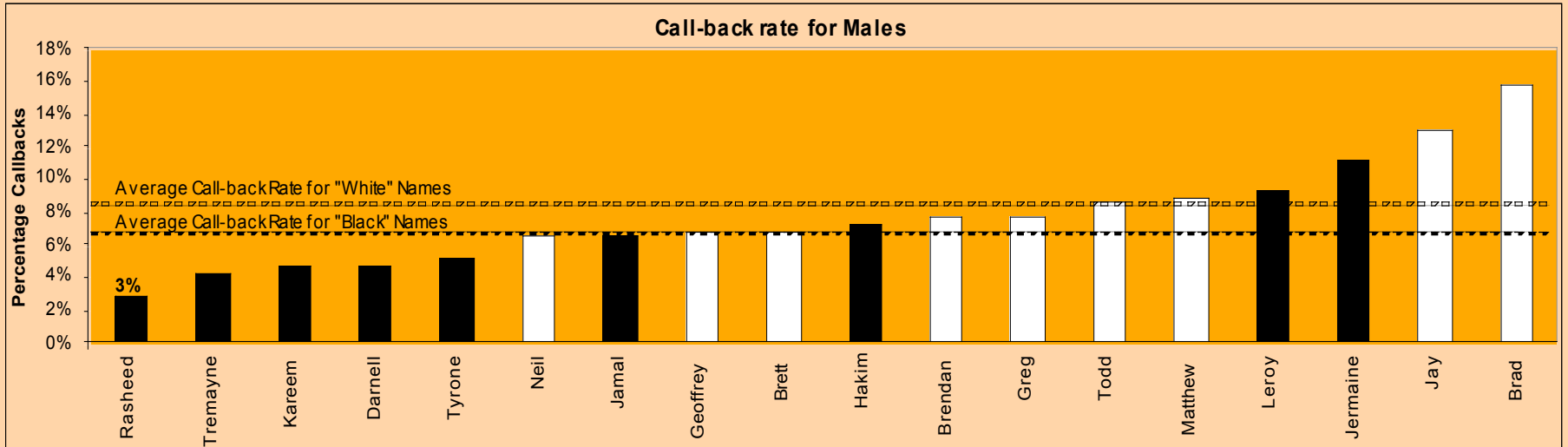
Income Share of Top 1 percent of US population (all income)



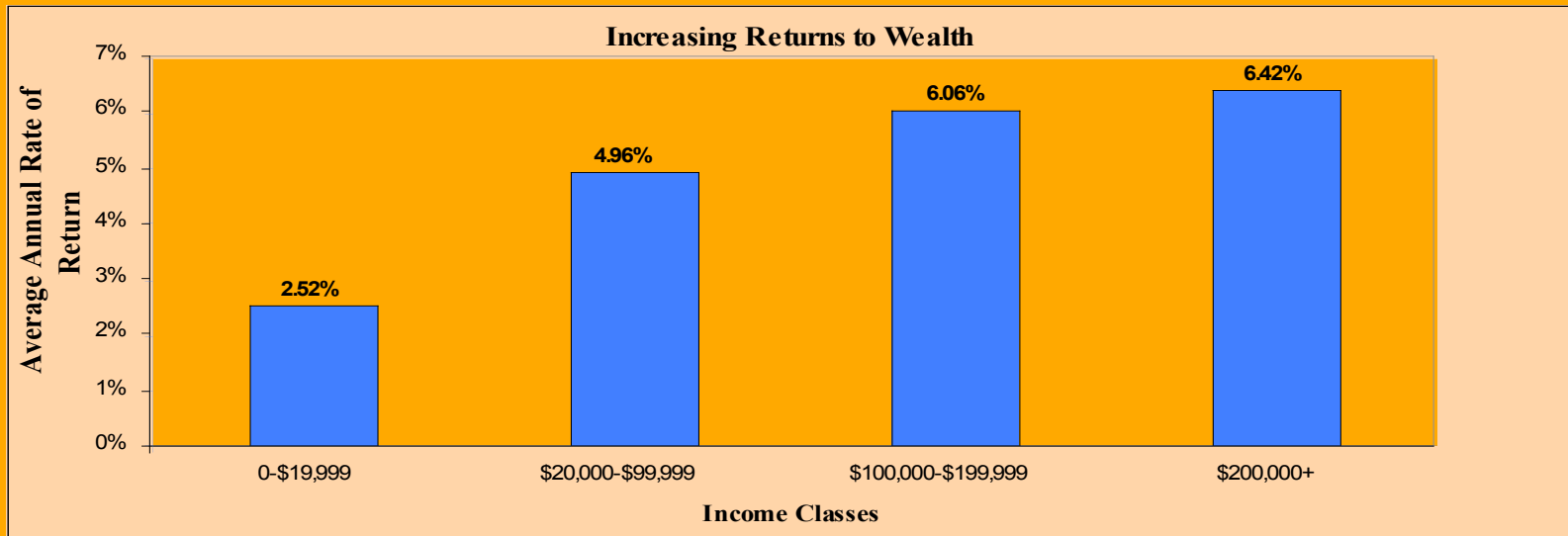
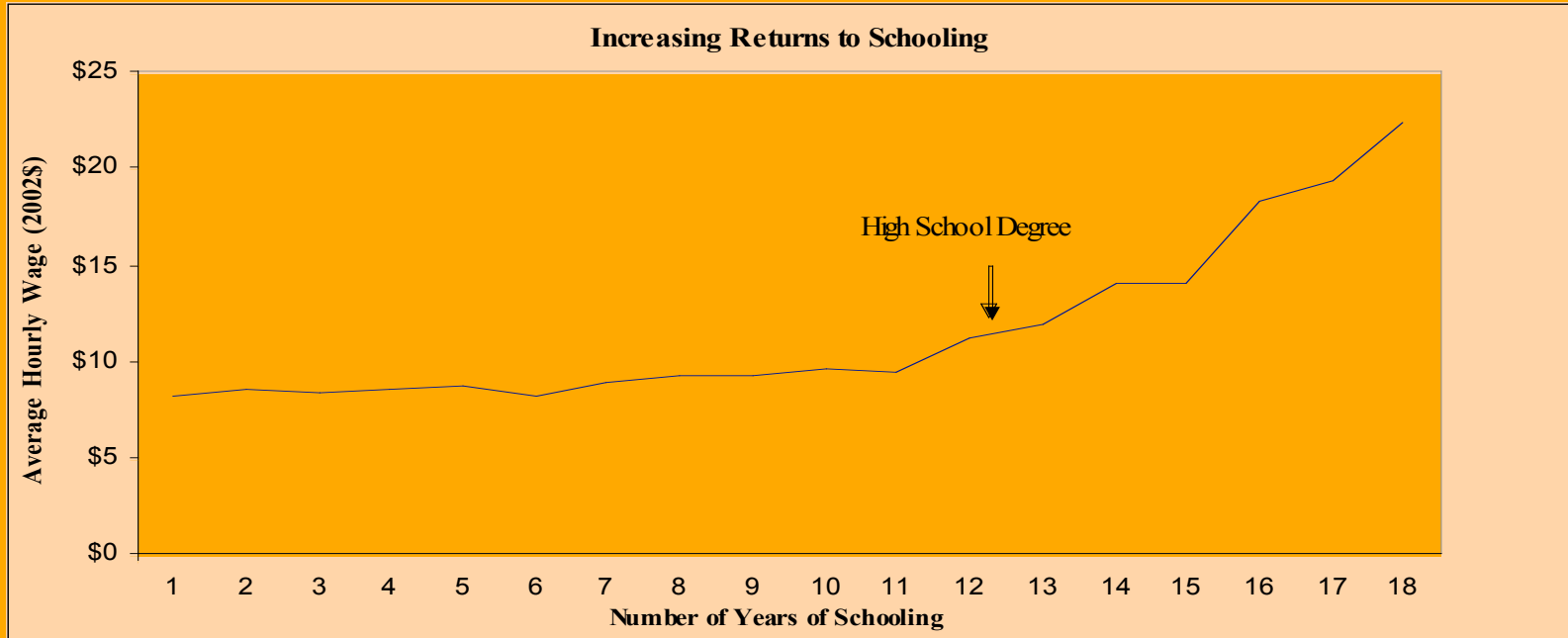
Unequal Pay for Women



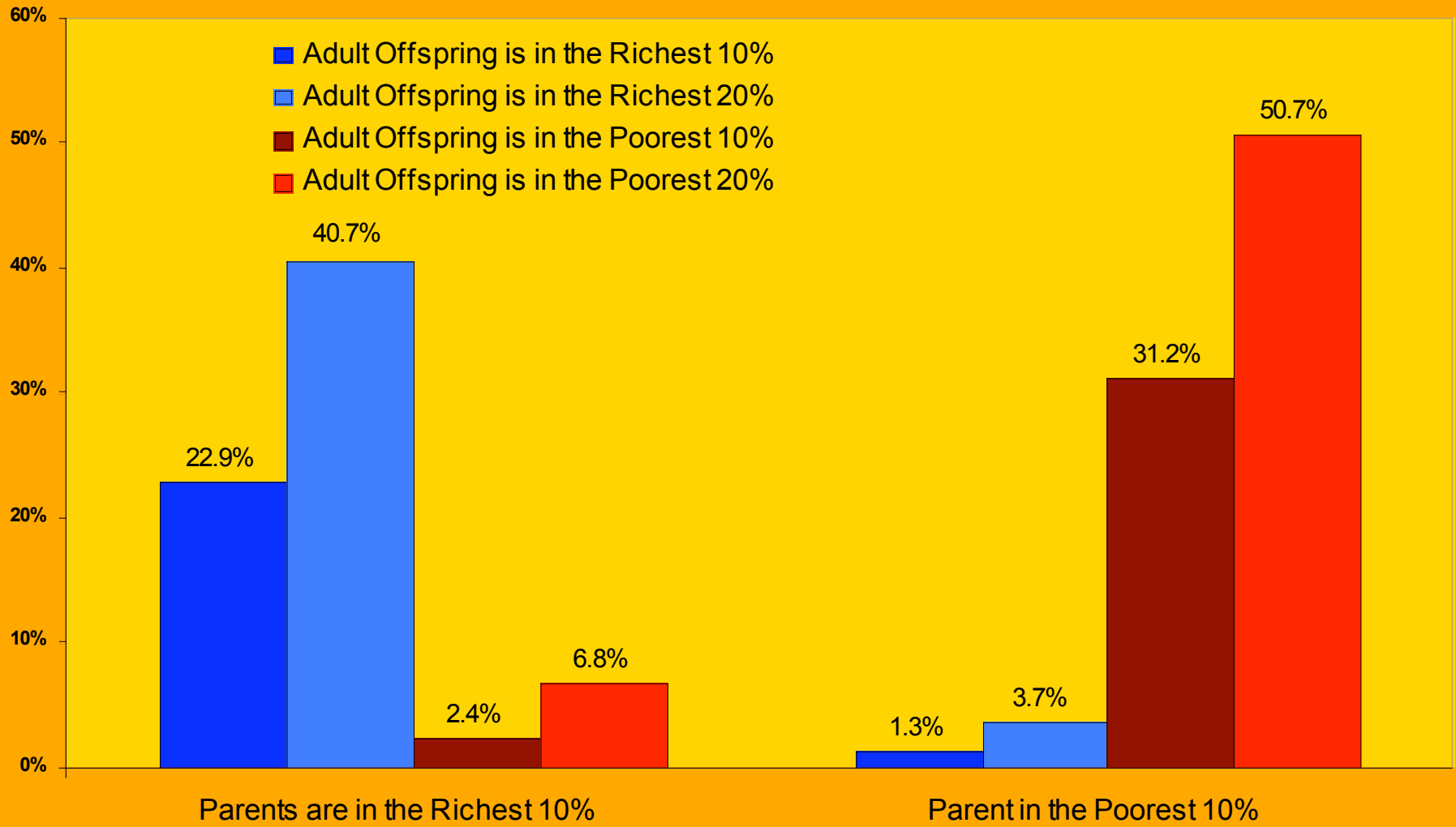
Racism By Any Other Name...



Its easier to get ahead.... if you are already ahead



American Dreams (and Nightmares)



Class Overview

- Neoclassical market theory and market imperfections.
 - Intellectual self-defense!
 - This is the kind of stuff WSJ and Economist editorials are built on.
 - also data on why the market story is wrong.

Primer on Marxist Economics

Neoclassical Markets

- Lots of buyers (say companies) and lots of sellers (say workers) of a good (say labor)
- Buyers have a “demand curve” which says how much labor they want to buy at every price(wage).
- Sellers have a “supply curve” which says how much labor they want to sell at each wage.
- Market Clearing price: The price at which total supply is equal to total demand.

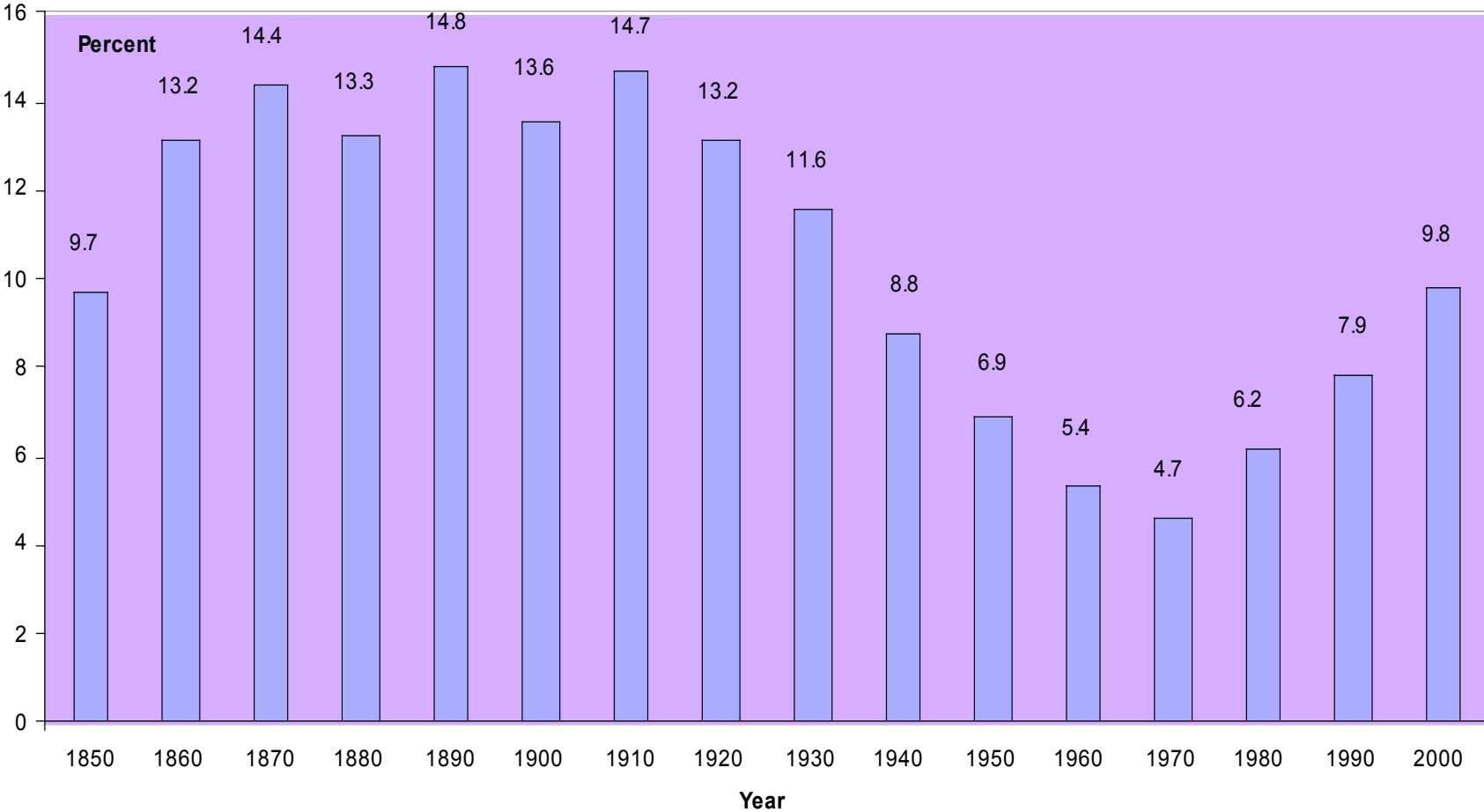
Drawing the curves

Shifting the curves

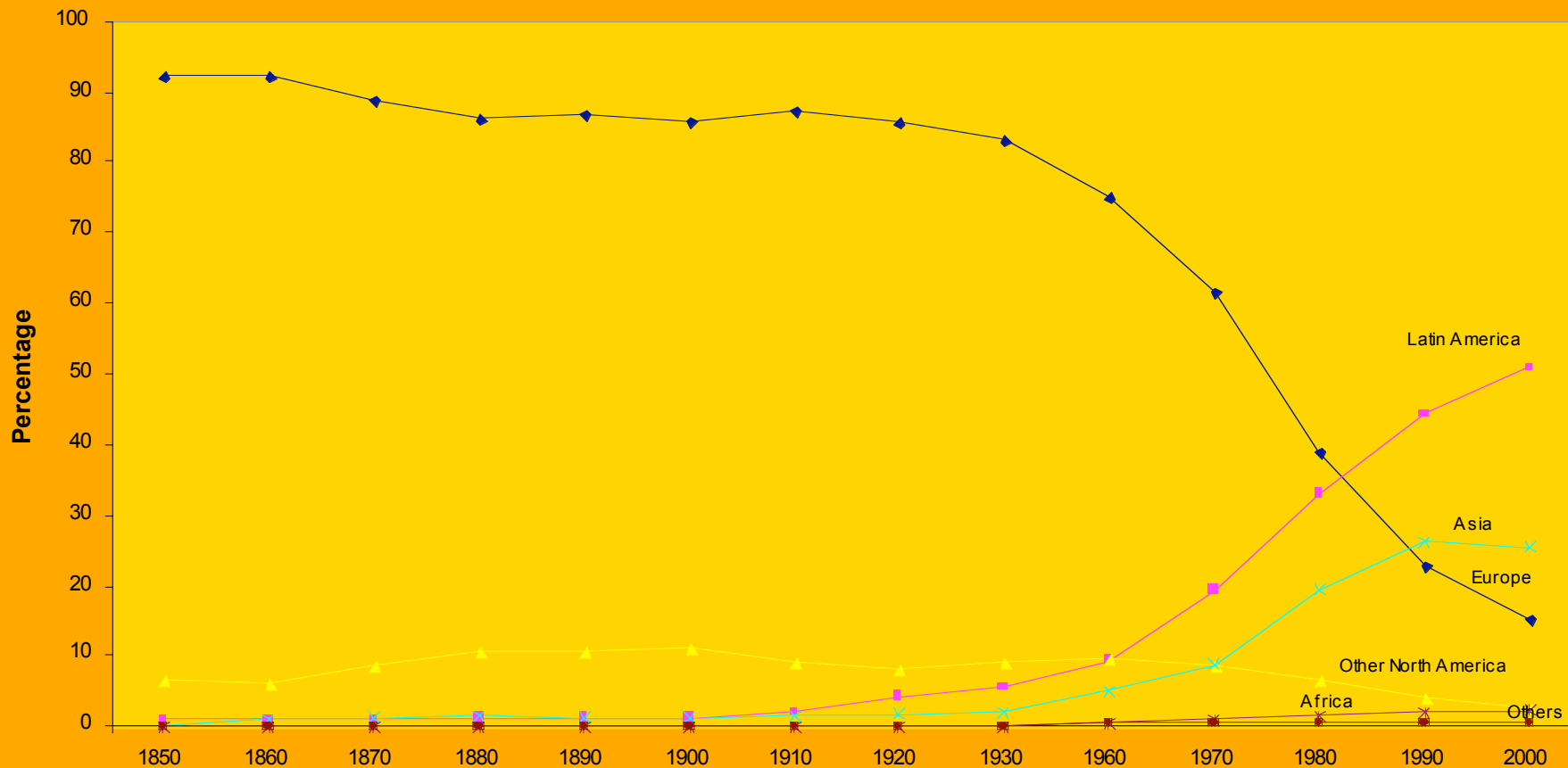
- E.G. Immigration – increases the amount of labor supplied at each value of the wage
- Welfare benefits – decrease the amount of labor supplied at each value of the wage
- Increased productivity increases the amount of labor demanded at each wage
- Lets look at immigration

Drawing the curves(2)

Percentage of U.S Population that is Foreign Born



Region of Birth of Foreign Born Population in the United States



Immigration in California

Figure 5. Net Employment Inflows of Immigrants and U.S. Natives to California, by Age-Education Group, Decades Between 1960 and 2000

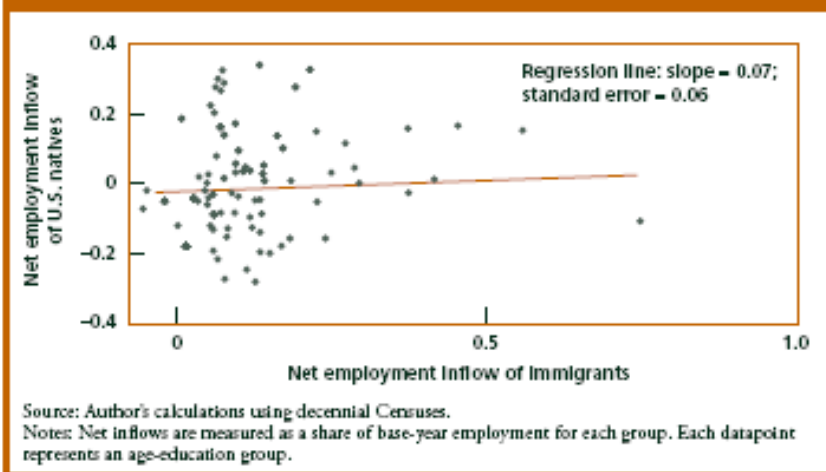
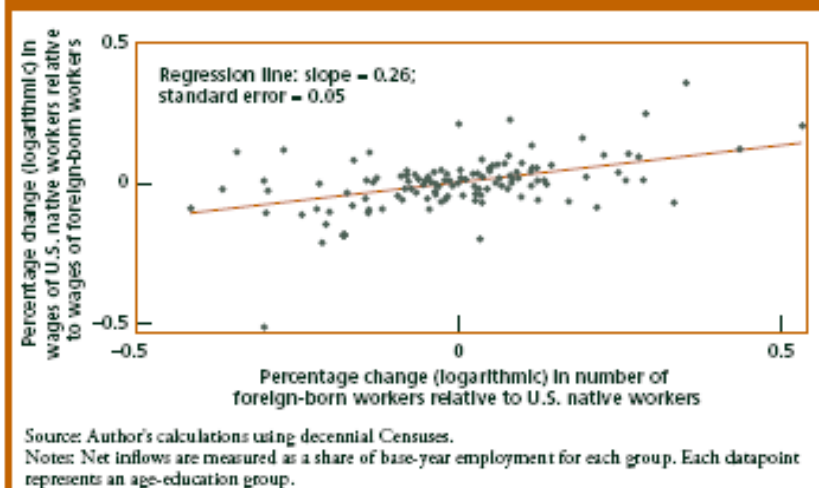


Figure 8. Complementarities Between U.S. Native and Foreign-Born Workers in California, by Age-Education Group, Decades Between 1960 and 2000



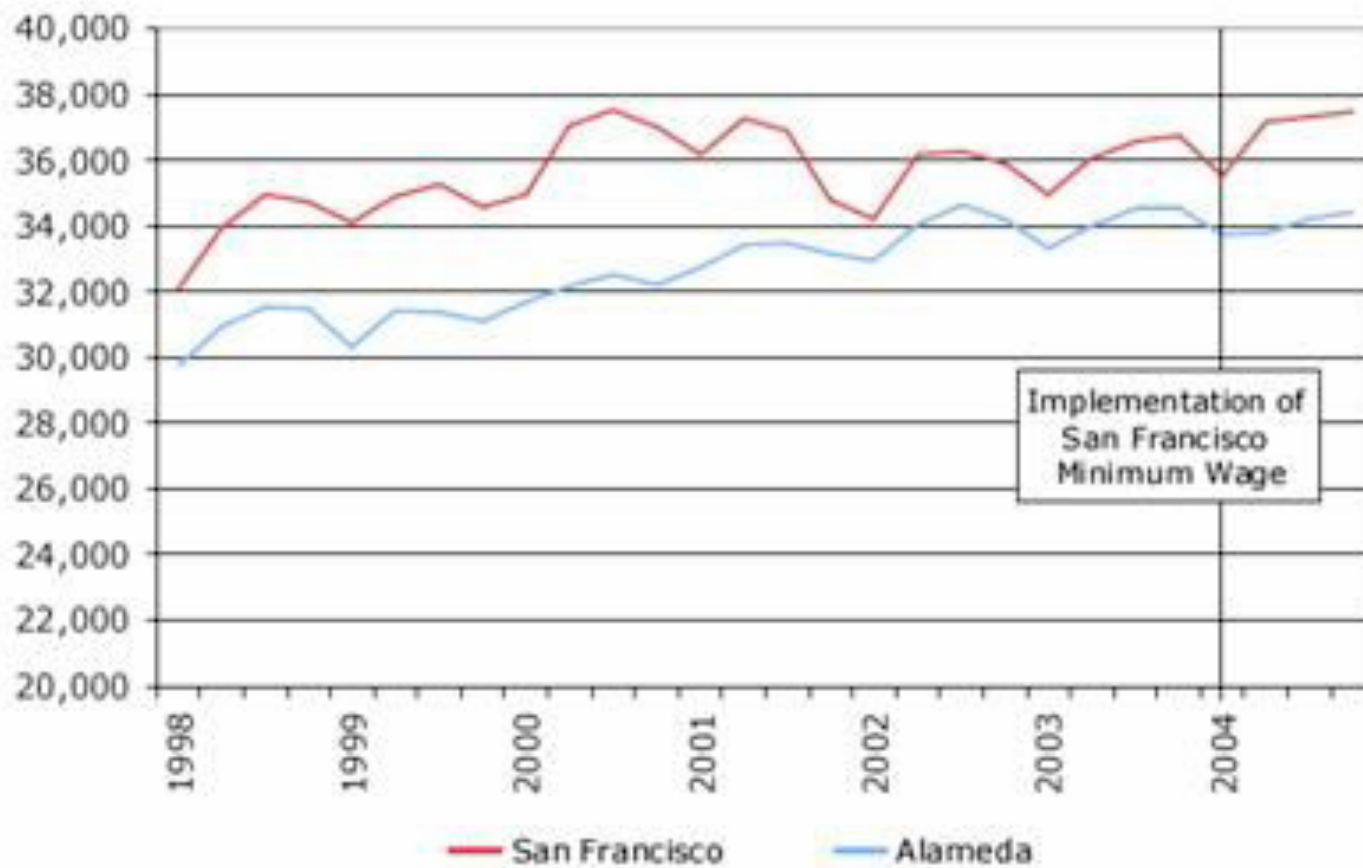
Err. So what's wrong with the theory?

Price and quantity restrictions

- Minimum wage
 - Draw pictures.
 - Causes unemployment(??)

Minimum Wage in San Francisco

Figure 7 Total Restaurant Employment - QCEW



From the brilliant dube, naidu, and reich 2007 ILRR

Figure 6 Average Earnings for Restaurant Workers (2004 S) -
(Indexed to 2002 Q1 level)

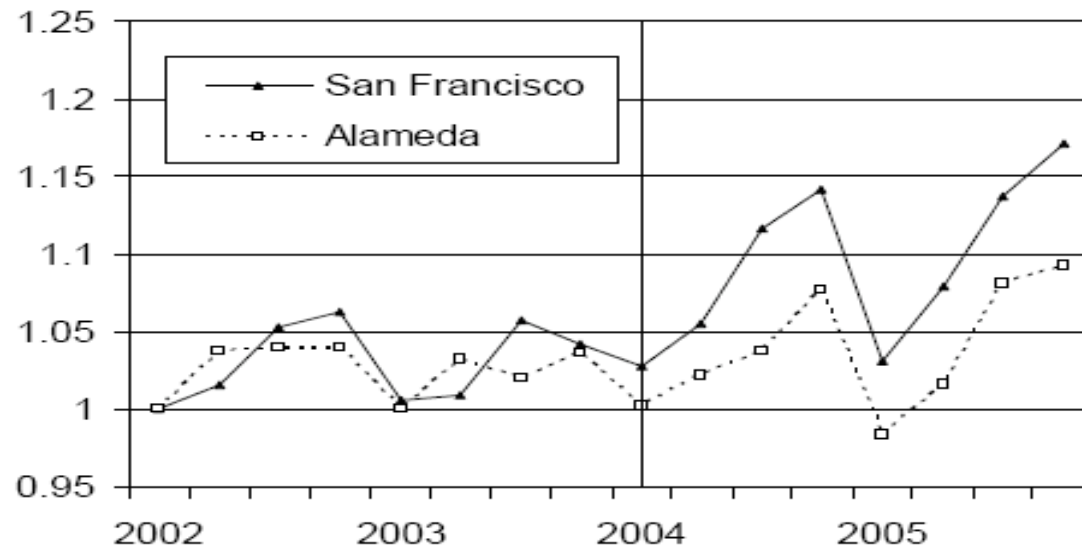
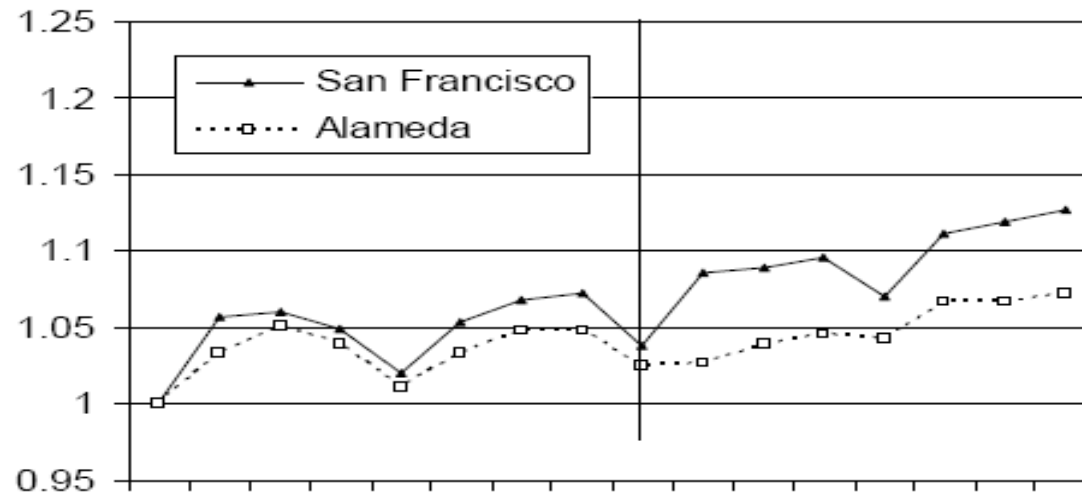


Figure 7 Total Restaurant Employment – QCEW.
(Indexed to 2002 Q1 level)



Small group exercise

Exercise: analyse the rental market.

i.e. who are the suppliers, who are the demanders

How can a rent ceiling cause homelessness?

Draw pictures!

What are the problems with this argument?

Rent Control in San Francisco

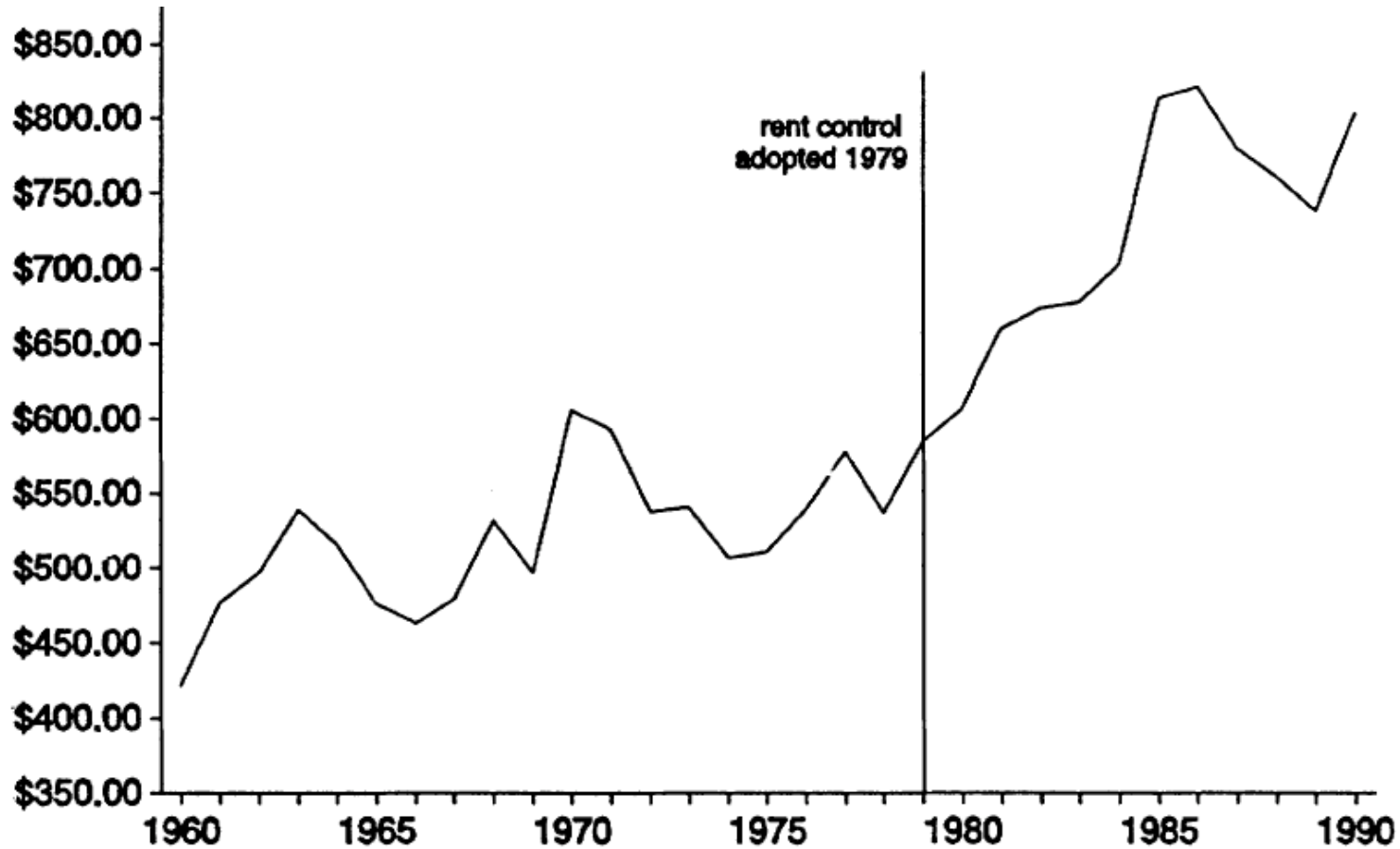


Figure 2: Median Rents, San Francisco, 1960-1990

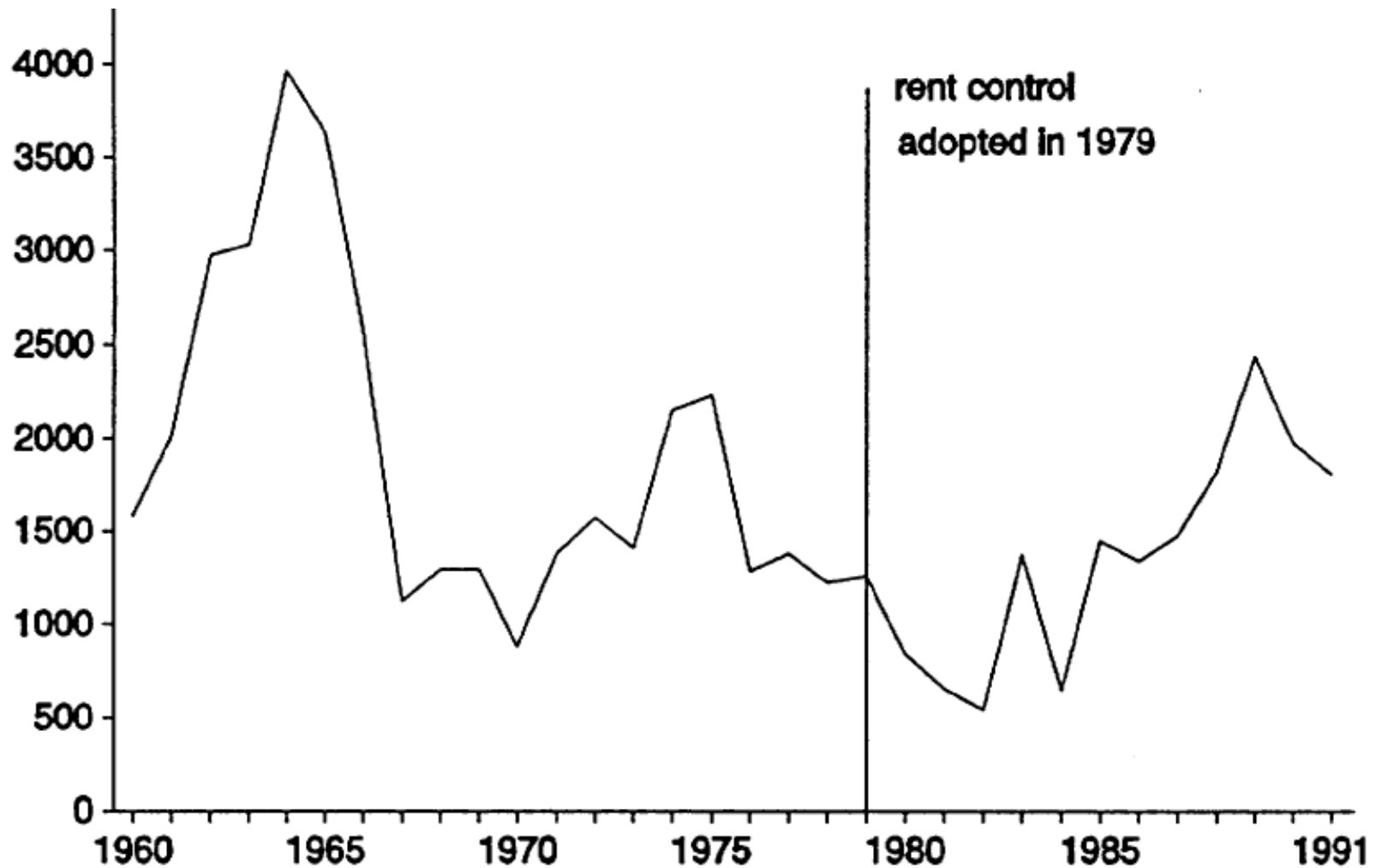


Figure: 1 Multifamily Housing Units Constructed in San Francisco, 1960-1991

Rent control a) didn't lower rents on unoccupied housing
b) didn't lower housing construction Goetz(1995). Take with salt.

Take-Away

- Neoclassical market story is clean, but rarely correct for the markets that we care about!

Market Imperfections

- Externalities:
 - when the true costs/benefits of a good are not taken into account by the individual market decisions
 - E.g. pollution, ideas,
- Asymmetric Information :
 - Bosses can't costlessly observe effort.
 - labor-discipline and unemployment
 - Landlords don't know who is a good tenant and who is bad.
 - Anti-eviction laws can actually decrease rents.

Market Power

- Market power.
 - Competitive market assumes sellers/buyers can't change the price
 - maybe important even in markets that look “Competitive”.
 - Can have market power even when there are lots of buyers and sellers.
 - Minimum wages can increase employment

These “imperfections” are everywhere!

- Textbook neoclassical markets are pretty ridiculous.
- Market imperfections abound, and contemporary economists study them.
- But fixing market imperfections probably won't fix inequality.
- Economists still on the whole think markets are pretty awesome.
- Economists::Education::Capitalism as Priests::Catholic Church::Feudalism

Now for something different

Marxist Econ/Political economy: Totally different way of looking at the economy.

Profit is not just the return to scarce investment, but an enforced claim on the output of labor.

Misc Marx Econ Jargon

- Primitive accumulation-Use of state power to expropriate existing owners to create capital.
- Commodity Fetishism-
- Use value-actual usefulness of thing
- Exchange value-price
- Labor-power-commodified labor
- Reserve army of labor –self-explanatory
- Organic composition of capital-ratio of raw-materials/machines to labor

Marxist Economics

- Commodities have values
- Value=socially necessary *abstract* labor time
- Value = surplus value +labor value + capital value
- Labor value= amount necessary to reproduce the labor used in production.
- Capital value= labor value from the past (materials + machines)
- Trad. defn of class: who gets to control the surplus. Lots of fights over this.

Circuits of Capital

- **Commodity Capital:** $C' - M' - C'$, in which the surplus value contained in products is realised in money form by the Commercial capitalist, and then reinvested in more commodities.
- **Money Capital:** $M - C - P (MP+L) - C' - M'$ in which Money is invested in commodities in order to realise surplus value returned to the Finance capitalist in the form of money with interest, and
- **Productive Capital:** $P (MP+L) - C' - M' - C' - P'$, in which the owner of means of production and labour produces a product and puts it into the market in order to realise the surplus value, which is re-invested in means of production and labour.

Historical Materialism

- Dialectical Materialism

{ Forces of production \Leftrightarrow relations of production } \Leftrightarrow “superstructure”

Class conflict engine of change

Probably the only game in town for thinking about long-run economic change.

But you all know this.

Crises and Anti-Crisis

Sources of Crisis:

overaccumulation/underconsumption, falling rate of profit, wage squeeze, anything that screws up the circuit of accumulation.

- Marxists tend to overpredict crisis. Not good politics.
- Functionalism: because x helps kism function, x exists because x helps kism
 - Implies getting rid of link between x and kism gets rid of x. Probably not true.
 - Need to specify mechanism:intent or selection?
- fallacy of composition: “what’s good for the individual k’ist is good for the class, and what’s good for the class is good for the system”

What's useful in Marxist economics?

- Tells you where to look for a radical analysis of what's going on in the economy.
- A common language (even globally) for a long time to criticize capitalist exploitation and oppression (even when it wasn't appropriate).
- How should we use it today?

Bibliography

- Understanding Capitalism, Bowles, Edwards, and Roosevelt
- Erik Wright “Classes”
- Karl Marx’s Theory of History, A Defense (GA Cohen)
- Limits to Capital, David Harvey
- Field Guide to the US Economy, Center for Popular Economics
- Any intro economics textbook