2. The Historical Development of Capitalism
(European/Anglo-American focus)
The result (or latest stage) of a long historical process
• Traditional subsistence economies: hunter-gatherers, small extended family or tribal bands.
• Marx’s primitive communism, Sahlin’s original leisure society vs. Hobbes’ view that life was “nasty, brutish, and short.”

Precapitalist history, continued

Roman Empire dominated Europe and entire Mediterranean until its collapse in 5th & 6th Centuries.
➢ Class society of patrician, plebian, and slave.
➢ Rural economy (latifundia), with relatively large cities.
➢ Collegial free artisans.
➢ Mostly nonmarket economy, but there was “free trade.”
➢ As in prior civilizations, individual/family wealth resulted from military, political, and religious power, not economic activity.

Collapse of the Roman Empire brought the end of economic development, chaos, declining population and the emptying of cities, the dark ages, and the slow development of Feudalism.

What was Feudalism?
Roughly, the economic system of Europe from the 5th through the 15th Centuries, with many local variants.
• Cellular, rural, agricultural, mostly non-market economy.
• The militarily powerful developed into lords and overlords, with bonds of military support and loyalty, and eventually into an aristocracy entitled through birth.
• Manorial system: serfs tied to land and lord, with implicit rights, access to land and commons based on subsistence and tradition, as well as responsibilities to lord and church.
• Property rights incomplete, even for the aristocracy: the lord’s ownership was conditional on will of his overlord.
• Very little social mobility.
• Again, wealth resulted from power.
Factors Leading to the Demise of Feudalism

- Checks on king’s power over lords (e.g., the English Magna Charta)… a complex issue.
- Crusades and contact with the East.
- Re-emergence of trading cities tolerated by local lords. Craft guilds dominated initially.
- Growth of strong nation-states with centralized and formalized authority.
- Evolution of money and banking – fundamental condition for economic development.
- In England, the evolution of Common Law.
- The disruption of plagues (e.g., the Black Death).
- The Enclosure Movements (13th – 18th Centuries) for more productive use of land.

More Factors:

- The Renaissance – not just Italian art, but a new era of creativity and rationalization in thought, and the beginnings of science.
- New World – overturning of the old world view, an outlet for the discontent, and an opportunity for exploration and new wealth.
- Protestant Reformation
  - Undermining of traditional authority
  - Lutheranism and salvation through individual initiative
  - Calvinist predetermination and prosperity
- Rise of “bourgeoisie” as an economic and political force in cities.
- Movement of landless peasants (the “proletariat”) to the cities.

Capitalism

- A commercial system, and a spirit of enterprise based on profit rationality.
- Marx defined it as a mode of production in which the bourgeoisie used their control over the means of production to exploit the proletariat. He saw it as a historically necessary stage, as an “engine of progress.”
- Fundamental conditions include:
  - The private ownership of property (esp. capital)
  - The hiring of labor for wages
  - Production for a market
  - Competition among producers
  - Retention of profit by producers for accumulation (investment)
Capitalism

- In its early stages it was characterized by great poverty and inequality – which was not new – and by high savings rates – which was new.
- After the mid 18th Century, it led to rapid technological progress (e.g., the rise of the factory system, and the industrial revolution), and wrenching social changes.

"Everything that can be invented, has been invented."
- Head of U.S. Patent Office, 1899

All resulting in industrialization, urbanization, export orientation, and self-sustaining growth.

More Classical Economic Thought

French Physiocrats – laissez faire, agriculture-based economic philosophy.

Mercantilism (Colbertisme) – capitalism should be used by the national government (the King) for wealth and power. This is determined by quantity of gold in the national treasury.
- Trade as a “one-way street.”
- Monopolies (e.g., East India Company) are more profitable, easier to tax and control, and are supportive.
- Example of the Opium Wars.

More Thought

- David Hume – specie flow mechanism
- J.B. Say – Supply creates its own demand
- Adam Smith (1776), An Inquiry into the Nature and Causes of the Wealth of Nations:
  - The definition of the wealth of nations
  - The role of self-interest, and the invisible hand
  - Specialization
  - Recognition of market forces and the tendency towards equilibrium
  - Growth is the natural and self-propelling result of self-interest and market forces (accumulation).
- David Ricardo – comparative advantage.
  1840’s – Parliamentary reform and the repeal of the Corn Laws.
More Questions of the Week

1. What are the chief characteristics of Feudalism?

2. How did Feudalism differ from the economic systems of the ancient civilizations?

3. What are the chief characteristics of Capitalism?

4. What conditions were necessary for the growth of Capitalism?

5. What are the major events which led to the emergence of Capitalism from Feudalism?

6. What was Mercantilism, and how did economists such as Smith, Hume, and Ricardo criticize it?

3. The Marxist-Leninist Critique of Capitalism

   a) Early and Utopian Socialists
   b) Marx’s view
      - basic theory of capitalism’s demise
      - what comes after
      - some fundamental problems
   c) Anarchists and Revisionists
   d) Lenin’s contributions to Marx’s theory

Early Socialist Thinkers

- Jean-Jacques Rousseau (1712-1778) – the nobility of the primitive, idealization of communal ownership and production. “Man must seek to recover wholeness at a higher level of existence.”

- Morely’s *Code de la nature* (1755) – private property is the “parent of crime.”

- François-Noël Babeuf (1760-1797) – advocated equal distribution of land and income, communism, and the possibility that a small elite could conspire to overthrow an undesirable government. Executed.

- Count Henri de Saint-Simon (1760-1825) – fought in U.S. revolution, advocated importance of workers, an end to private property and inequality, and rational state planning. Businessmen and industrial leaders would take the place of the Church in controlling society.
“Utopian Socialists”
- Robert Owen (1771-1858) and New Lanark: he made a fortune by treating his workers very well, and creating a “village of cooperation.”
  “Man is the creature of circumstance.”
- Charles Fourier (1772-1837) – advocated social organization of phalanxes of common ownership and voluntary communal work. Brook Farm, Oneida, etcetera.
- John Stuart Mill (1806-1873) – one of the best economists of his day, and an advocate of social justice through reform and government intervention (separability of production and distribution). Capitalism still reflected the feudal past, and had untapped potential.

Karl Marx’s view
- History is the story of class struggle.
- Capitalism is a system of exploitation of one class of people by another. Capitalist production is alienating.
- Primitive capital accumulation led to the emergence of the bourgeoisie, and the end of Feudalism led to the transformation of the serfs into the proletariat under the wage labor system.
- Capitalism is an engine of progress through capital accumulation, but in addition to being exploitive it also is chaotic, unstable, and wasteful – producing products that people don’t need and idling potentially productive capital and labor.
- Smith’s labor theory of value is assumed.

Basic Marxian Theory
Marx’s theory of surplus value:
- Surplus value = production value – wages – capital costs (a transfer of value)
  \[ V = W + C + S \]
- Long-run profit rate \( p = \frac{S}{W+C} \)
- Rate of exploitation \( r = \frac{S}{W} \)
- Organic composition of capital \( q = \frac{C}{W+C} \)
- So \( p = r \left(1-q\right) \), and \( dp/dq < 0 \)
Marxian Theory of Capitalism’s Demise

Process:
- Competition among capitalists leads to accumulation.
- Accumulation leads to falling profit rate.
- Rate of exploitation rises to keep profits up.
- Reserve Army of the Unemployed keeps workers cooperative.
- Government is the agent of the capitalist class.
- Nationalism, war, sexism, and racism are tools of capitalism.
- Crises of underconsumption and overproduction.
- Class consciousness and revolution.

What happens after the revolution?

- Dictatorship of the Proletariat
- Socialism: government acts in the interest of the proletariat to eliminate capitalism. Markets replaced by more rational planning. State ownership replaces private ownership. Workers become more productive, and scarcity is eliminated.
  - From each according to his ability, to each according to his work.
- Eventual withering of the state, complete change in superstructure to eliminate vestiges of capitalism.
- Emergence of Advanced Communism: self-organizing and socially-interested. Markets, planning, money, classes, and government all no longer necessary.
  - From each according to his ability, to each according to his need.

Marxian theory continued

A neat theory of the contradictions of capitalism, with its own contradictions:
1. Do capitalists act in their own interest or that of their class? Accumulation versus the Reserve Army.
2. Capital accumulation does not lead to falling profit rates.
3. The revolution did not come first to the most advanced capitalist economies.
4. Value cannot simply come from labor, or management, capital, entrepreneurship, luck, et cetera would not matter. Instead, it comes from scarcity – what people are willing to give up on the margin to have it.
Revisionists

Influential thinkers in the Communist Movement (e.g., the German SDP) who eventually came to disagree with Marx. For example:

- Eduard Bernstein – Capitalism is reforming and may gradually eliminate its many evils, its breakdown is not inevitable, and socialism requires a voluntary choice.
- Mikhail Tugan-Baranovsky – Marxist theory is incorrect, overproduction is not a problem and there is no inherent law of falling profits. Socialism requires “enlightened work.”
- Karl Kautsky – First a critic of Revisionists, then came to agree. Argued that working class could achieve a balance of power through democracy.

Anarchists

- Bakunin – all government power is inherently corrupt.
- Proudhon – What is Property?

Lenin’s Contributions to Marxism

Basic Theories:
- Uneven Development
- Monopoly Capitalism
- Imperialism
- The “Weak Link”

In 1907, he wrote What is to be done? Party the “vanguard of the proletariat”
Revolutionaries must be secretive, not open
Split between Bolsheviks and Mensheviks in Russian SDP

In 1917, he led the Bolshevik Revolution in Russia, and created the first socialist state.
Questions

1. What is the theory of Surplus Value? How does it relate to accumulation? What does it explain and predict? What role is played by the "Reserve Army of the Unemployed" and class struggle?

2. What are the chief criticisms of Marx's theory of Surplus Value?

3. What are Lenin's contributions to Marxism? How do these theories interact to modify Marxist theory?

4. How did the anarchists (e.g., Bakunin, Proudhon), the so-called "utopian" socialists (e.g., Rousseau, Morely, Babeuf, Saint-Simon, Owen, Fourier), and the revisionists (Bernstein, Tugan-Baranovsky, and Kautsky) differ in their thinking from the traditional Marxist approach?