A Introduction to Capitalism

ECED7002

Session 4a

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Definitions: Capital

- Any asset, financial or otherwise
- A source of income

(Russet 2010; Amadeo, 2019)

- Used to produce an income
  - Manufacturing Equipment
  - Land
  - Labour
  - Capital
  - Entrepreneurship

Factors of Production	Socialism	Capitalism	Communism
Are owned by	Everyone	Individuals	Everyone
Are valued for	Usefulness to people	Profit	Usefulness to people

Definitions

- Capitalism:
  - An economic system where goods are produced for profit
  - Sold (Rather than Bartered)
  - Unlike Feudalism
  - It exists within a 'free-market' in labour in theory
  - Workers in a Capitalist System are free
    - to sell their labour to the highest bidder
    - and not the property of the feudal lord/slave/master

(Mullins, 2004)

What exactly is meant by Capitalism?

- Porritt (2007) argues that the…
  - 'The notion of Capitalism lies in the notion of Capital'

- With economists stating that it is…
  - 'the stock of anything (physical or virtual) from which anyone can extract a yield'

Historical Context of Capitalism

- Where does Capitalism Come From
- What is Capitalism
- What are its Impacts

Early Beginnings

- Profit Maximizing Emerges
  - Rise of the Urban Merchant Class
    - New class emerges from Serfs
    - Not tied to the Land
    - Society no longer based on personal relationships

http://www.medieval-spell.com/Medieval-Merchants.html

(Skocpol, 1977)

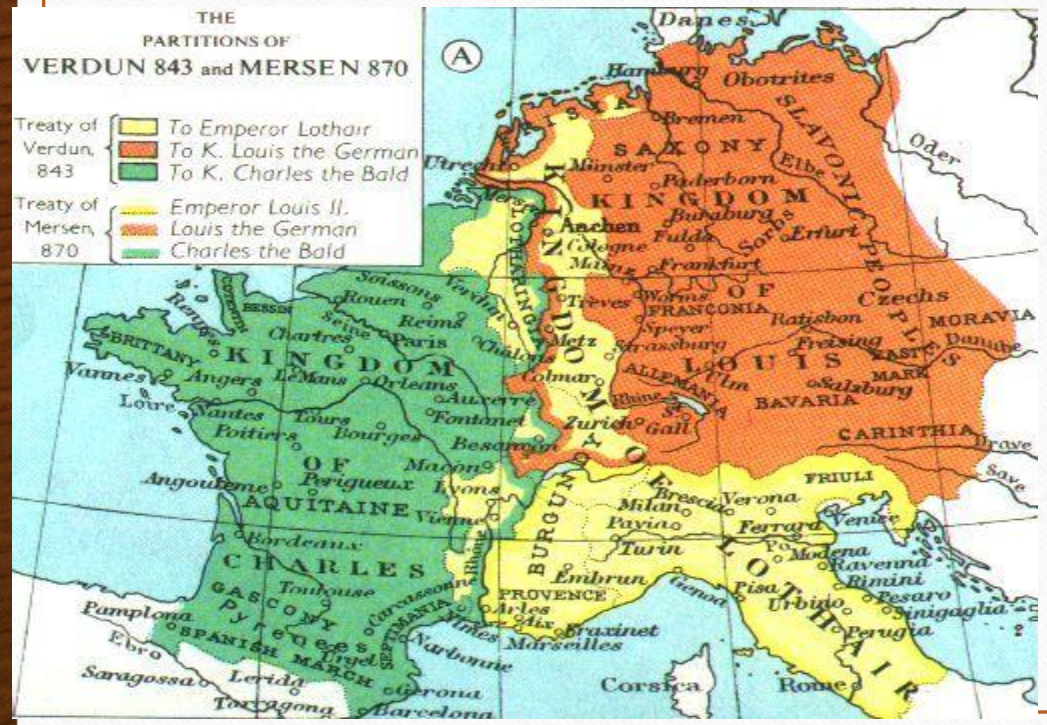
Geographic Early Beginnings "original globalization"

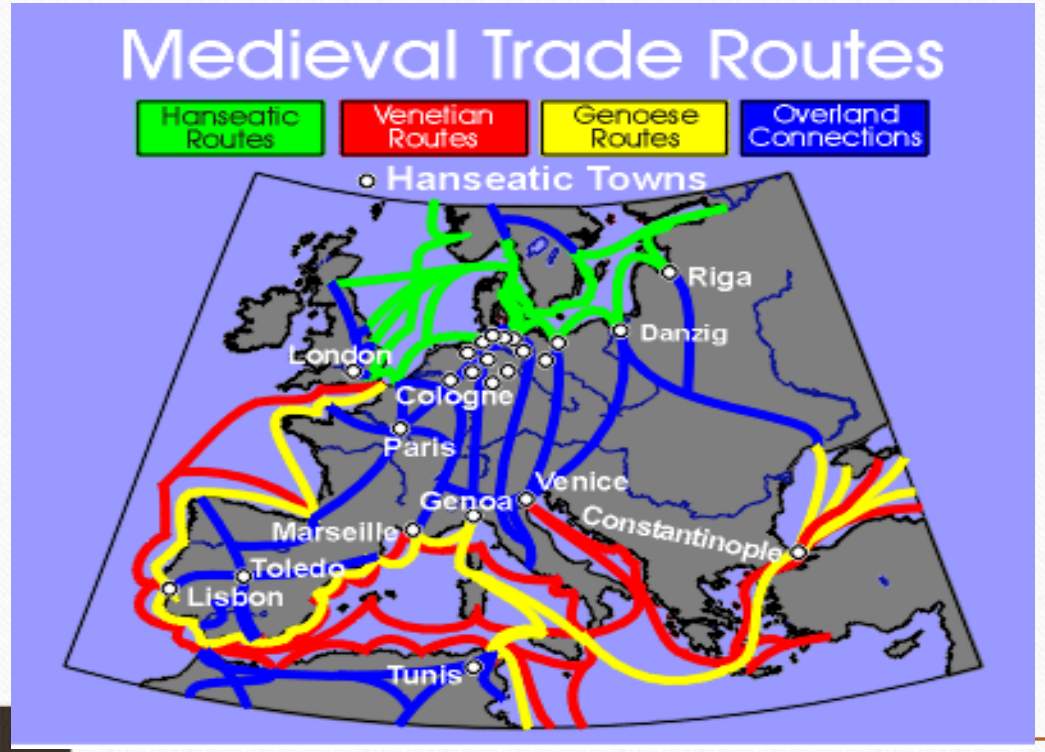
- Profit Maximizing Emerges
  - Trading Networks create untold wealth
  - Treaty of Verdun 843 Carolingian Empire held by Lothar I
    - after the desolation of the Charlemagne Empire See link: https://www.britannica.com/event/Treaty-of-Verdun
    - Northern Italy – Southern Terminus of European Trade
      - Taps into Mediterranean Sea and world beyond
      - Related to ancient Lotharangia
      - Key southern city initially Venice
      - Hanseatic League – part of Northern Terminus creates integrated economy around Baltic and into North Sea
      - Key northern city becomes Amsterdam

(Goldman, 2008)

Carolingian Empire in 842 after the Treaty of Verdun
The territories shaded in blue were granted to Lothar (Lotharingia)

The Trading 'Spinal Cord' of Early 16th Century Europe Based on this Ancient Kingdom



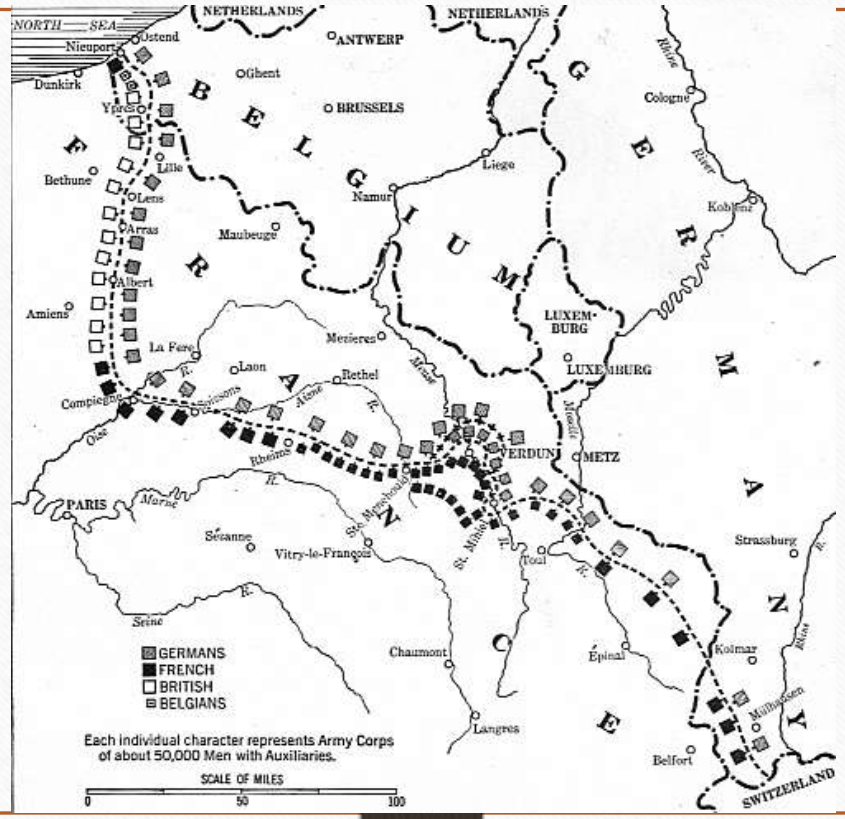


Capitalism: Historic Focus

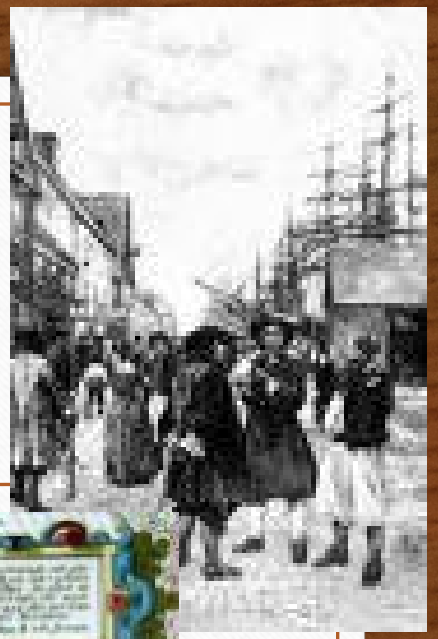
- Note how 20th century wars still focus on this geographic alignment this trade 'incubator'
  - What are they fighting over?

World War I. The Central Powers were in the unenviable position of fighting wars on two major fronts. The inset shows the stabilized Western Front of trench warfare in northern France and Belgium.

‘Western Front’ in two World Wars:
For what are We Fighting other Countries?



Characteristics: Markets



- Means of distributing scarce resources
  - Leaves behind State Controls and Land Based Economy
  - Commodities now free to change hands
  - As a 'New' Institution
    - Becomes the most important
    - Threatens the old (Feudal) order
  - Power has moved from
    - State and Feudal Lords
    - To Merchants and Sellers

http://www.ub.uit.no/northernlights/eng/whitesea02.htm

Characteristics: Private Property

- Private Property
  - Title and ownership no longer solely through the crown/State
  - But property rights guaranteed by the State

  - Picture is an example of the enclosure of Feudal estates & commons
- Enclosure Acts: 1750 to 1860
  - These were a series of Parliamentary Acts,
  - the majority of which were passed between 1750 and 1860
  - through the Acts, open fields and 'wastes' were closed to use by the peasantry

Enclosure Acts: Great Britain 1700–1801

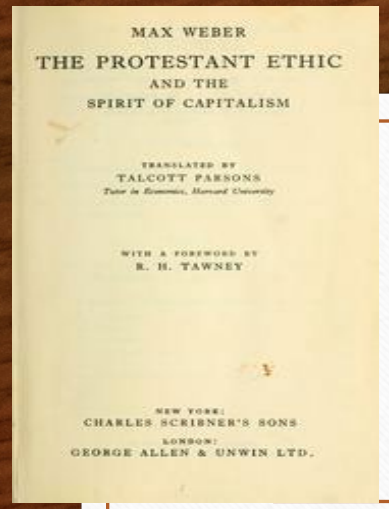
- Enclosure of land through the mutual agreement of landowners
- Regulated by Parliament
- Separate Act of Enclosure was required for each village that wished to enclose its land
- In 1801, Parliament passed a General Enclosure Act
- which enabled any village, where three-quarters of the landowners agreed, to enclose its land

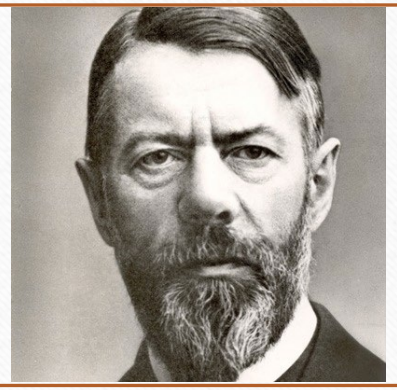
The Enclosure Acts: Positive Effects

- Less land wastage
  - boundaries between strips could now be farmed
- Land of a good farmer
  - no longer suffered from neglect of neighbouring strips
- Machinery
  - such as the seed drill
  - could be used on the larger plots of land
- Farmers were encouraged to experiment
  - e.g., with crop rotation
- Animal diseases
  - less likely to spread to all village animals
  - Separate fields for animals made selective breeding possible
- Less labour
  - needed to tend crops and animals on more compact farms

The Enclosure Acts: Negative Effects

- Eviction of farmers
  - known as customary tenants
  - who failed to prove legal entitlement to land their families had worked for generations
- Eviction of villagers
  - who owned no land and had kept animals on common pasture
  - common land was allocated to other farmers through enclosure
- Poor farmers
  - allocated small plots of land
  - were unable to compete with large landowners. Many lost their land when their businesses failed
- Migration of poor
  - evicted peasants to industrial cities to find work
  - Having lost their means of self-sufficiency they were forced to accept low wages and poor conditions
  - Casual agricultural labourers suffered similar poverty



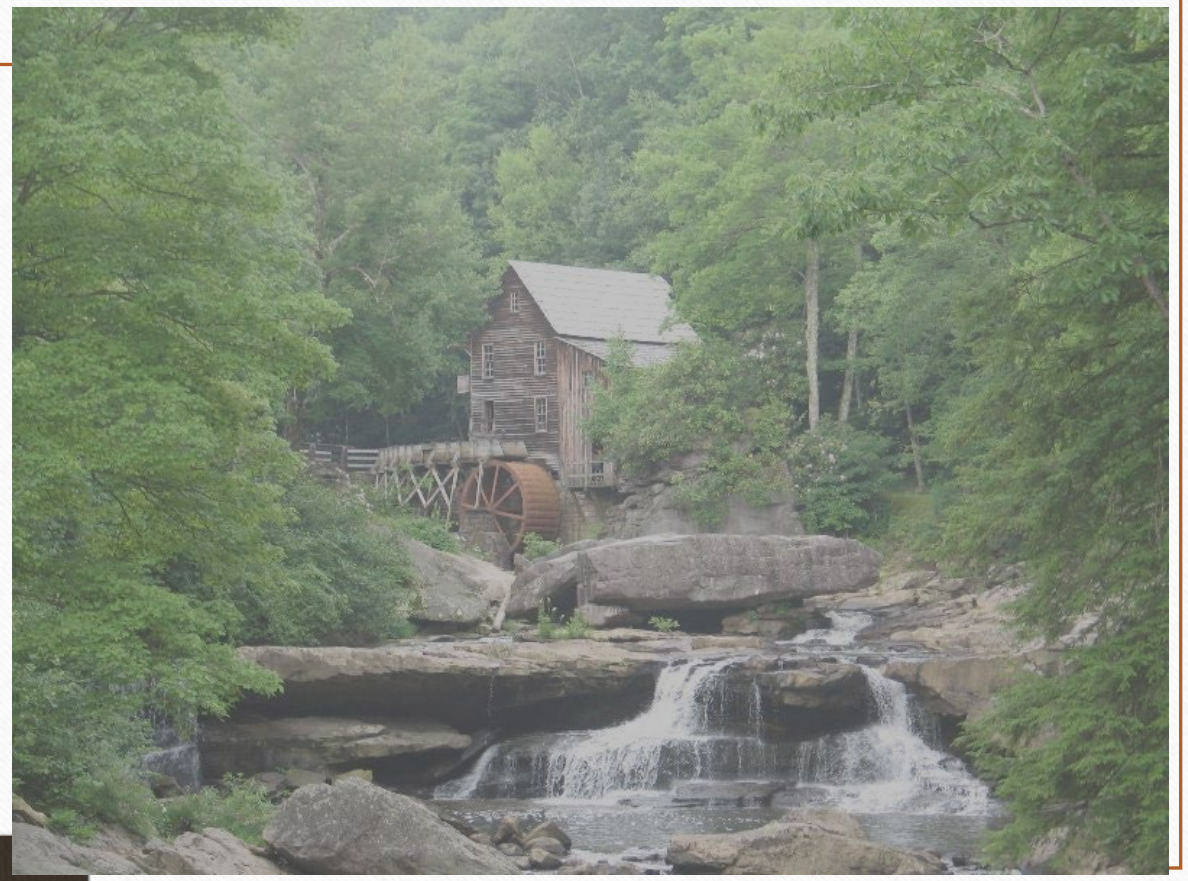


Characteristics: Profits

- Profit
  - Drives all activity
  - No longer is 'idleness' sought after
- Hard work and accumulation of goods on this earth is GOOD!
  - "It's glorious to get rich" (Deng-Tsao Ping, Modern day rendition of the Protestant Ethic)

Characteristics

Grist mill
http://www.theponderosalodge.com/images/Grist_Mill_Summer.JPG



- Progress
  - Competition becomes a virtue
  - Change and efficiency become watchwords
  - New Virtues are
    - Innovation
    - Change
    - Risk Taking

“Grist for the Mill”

- The proverb "all is grist for the mill" means
  - "everything can be made useful,
  - or be a source of profit."
- There are some minor variations, such as
  - "all's grist that comes to his mill",
  - meaning that the person in question can make something positive out of anything that comes along.
- A miller ground whatever grain was brought to him,
  - charged a portion of the final product for the service
  - All grain arriving at the mill
  - represented income,
    - regardless of its quality
- The first recorded usage was in the 16th century, but the term is probably much older. The term "gristmill" was once common in the US and UK to describe a small mill open to all comers (Judge *et al*, 2000)

Class Relations

- Wealth based not Tradition based
  - More fluid
  - Aristocracy gives way to Meritocracy
- Merchants ascendant class
  - Bourgeoisie
  - Can challenge Church and State (might this reflect present day Russia or even China???)
- Labor becomes a commodity
  - Emergence of wage-labor
  - Rising of working class -- Proletariat

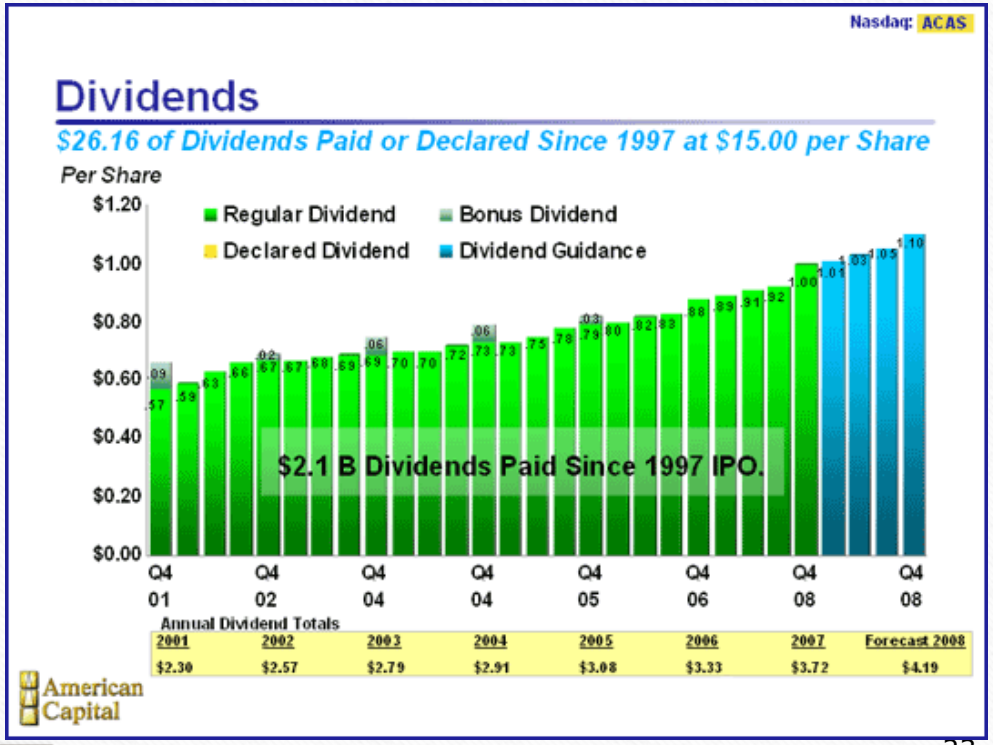
http://pwbeat.publishersweekly.com/blog/wp-content/2007/09/HOH005_L.jpg

Finance

- Money replaces land as ultimate measure of wealth
- Cash transactions replace barter
- Commoditization of Land, Labor, Time—Transportation
- Alienation of society
  - Blood is thicker then water
  - But cash preferable to blood

Finance and Competition

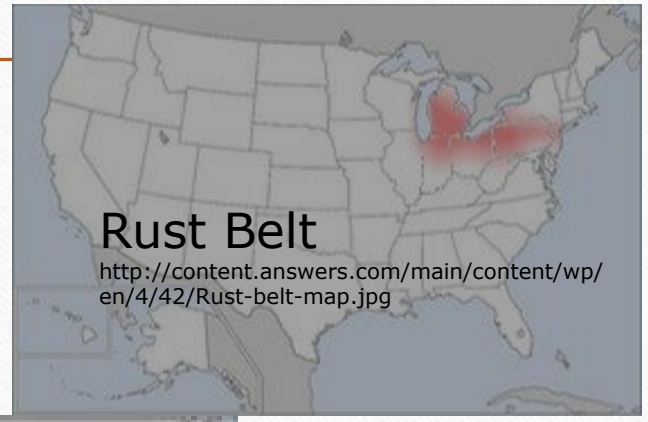
- Velocity and Accumulation of Capital
  - More is always better
  - Capital must always be invested
  - Competition requires continuous "destructive construction"

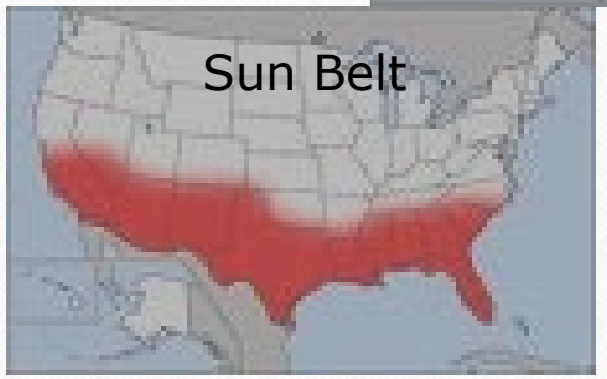


http://acas.com/images/investor_relations/dividend_slide.gif

Territorial & Geographic Changes

- Emergence of "Uneven Spatial Development"
  - Currently seen in variation of Coastal and Inland China
  - Rust Belt/Sun Belt in US
  - Core & Periphery in North-South Debate
- Occurs at all levels
  - In cities – "wrong side of tracks"
  - In and between states, countries, trade blocs



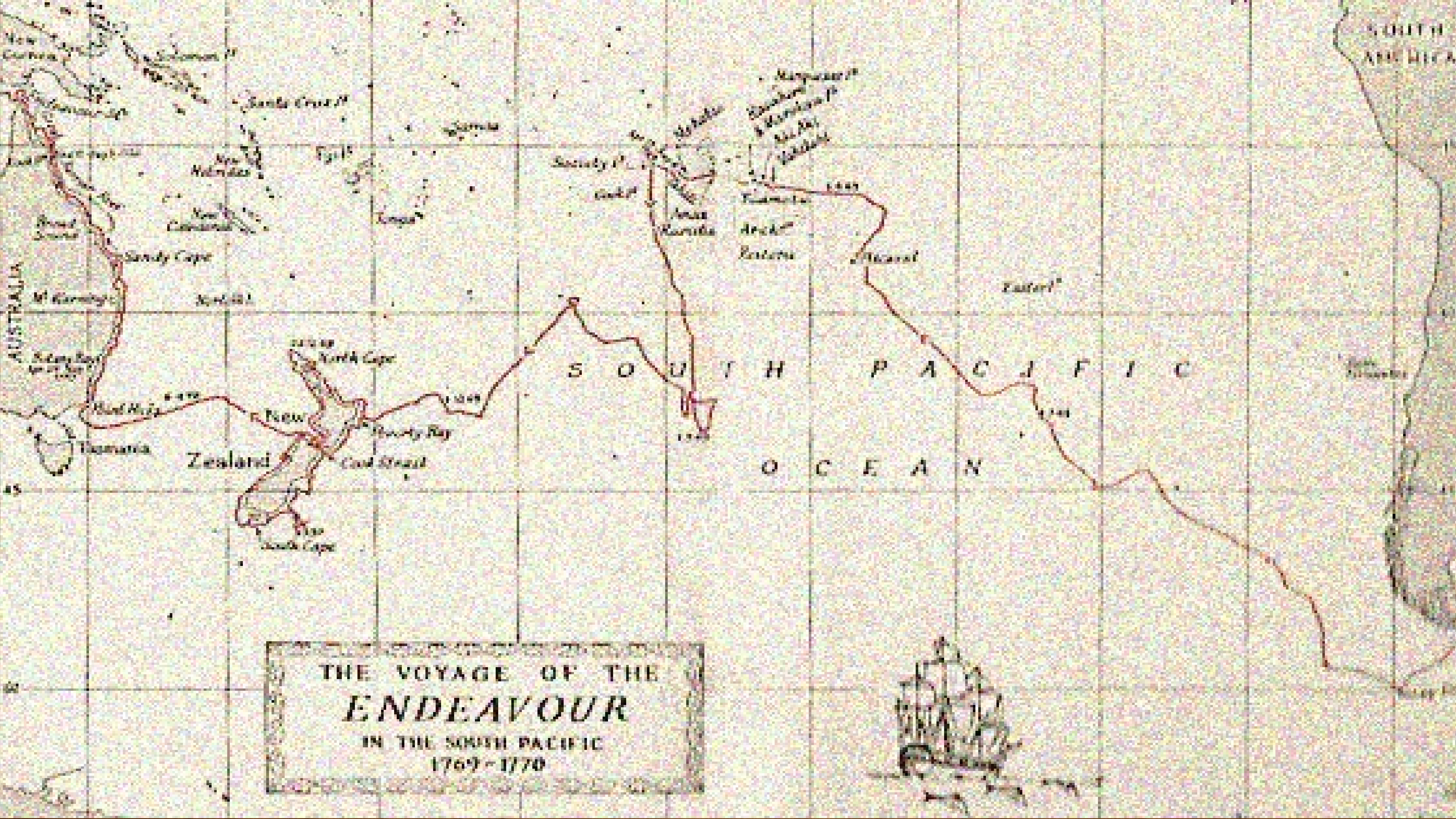


Long Distance Trade
"Modern Globalization Begins"

- Feudal Age: Trade was peripheral to system
  - Mainly for aristocrats based on luxury items
- In Capitalism: Trade is central
  - Trade everything – luxuries to necessities
  - Transportation development central to process
  - Occurs at all scales

(Conley, 2000)

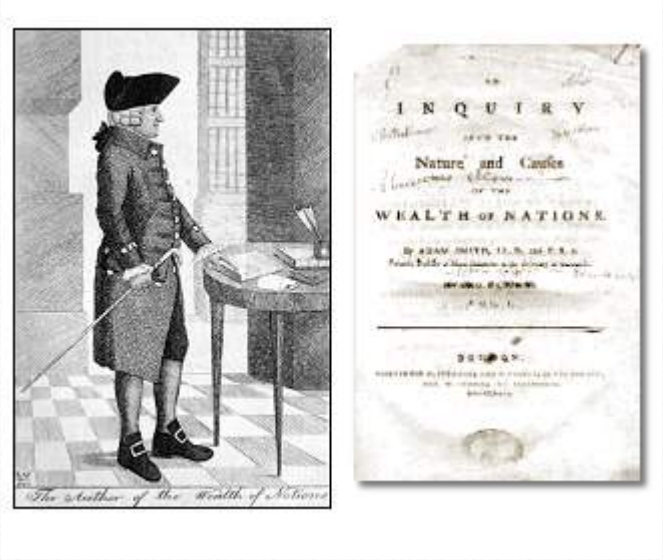
Vasco da Gama in India


THE VOYAGE OF THE
ENDEAVOUR
IN THE SOUTH PACIFIC
1769 – 1770
SOUTH PACIFIC
OCEAN
AUSTRALIA
New
Zealand
Tasmania
Sandy Cape
North Cape
Poverty Bay
Cook Strait
South Cape
Santa Cruz I.
Solomon I.
New Hebrides
New Caledonia
Society I.
Tonga
Samoa
Fiji I.
Tuamotu
Marquesas I.

New Ideologies

- Capitalism effects perception of World (and Heaven)
  - Creates its own "Reality" (paradigm???)
  - Mixes economics, politics, culture, geographic relationships
  - Protestant Ethic emerges
- Man's role in creating his own world recognized
- Links with the enlightenment

Adam Smith



(Devine, 1977)

Subscribe for the
INDUSTRIAL WORKER
Industrial Unionism
CAPITALISM
WE RULE YOU
WE FOOL YOU
WE SHOOT AT YOU
WE EAT FOR YOU
WE WORK FOR ALL
WE FEED ALL
PYRAMID OF CAPITALIST SYSTEM
Almighty "dollar"

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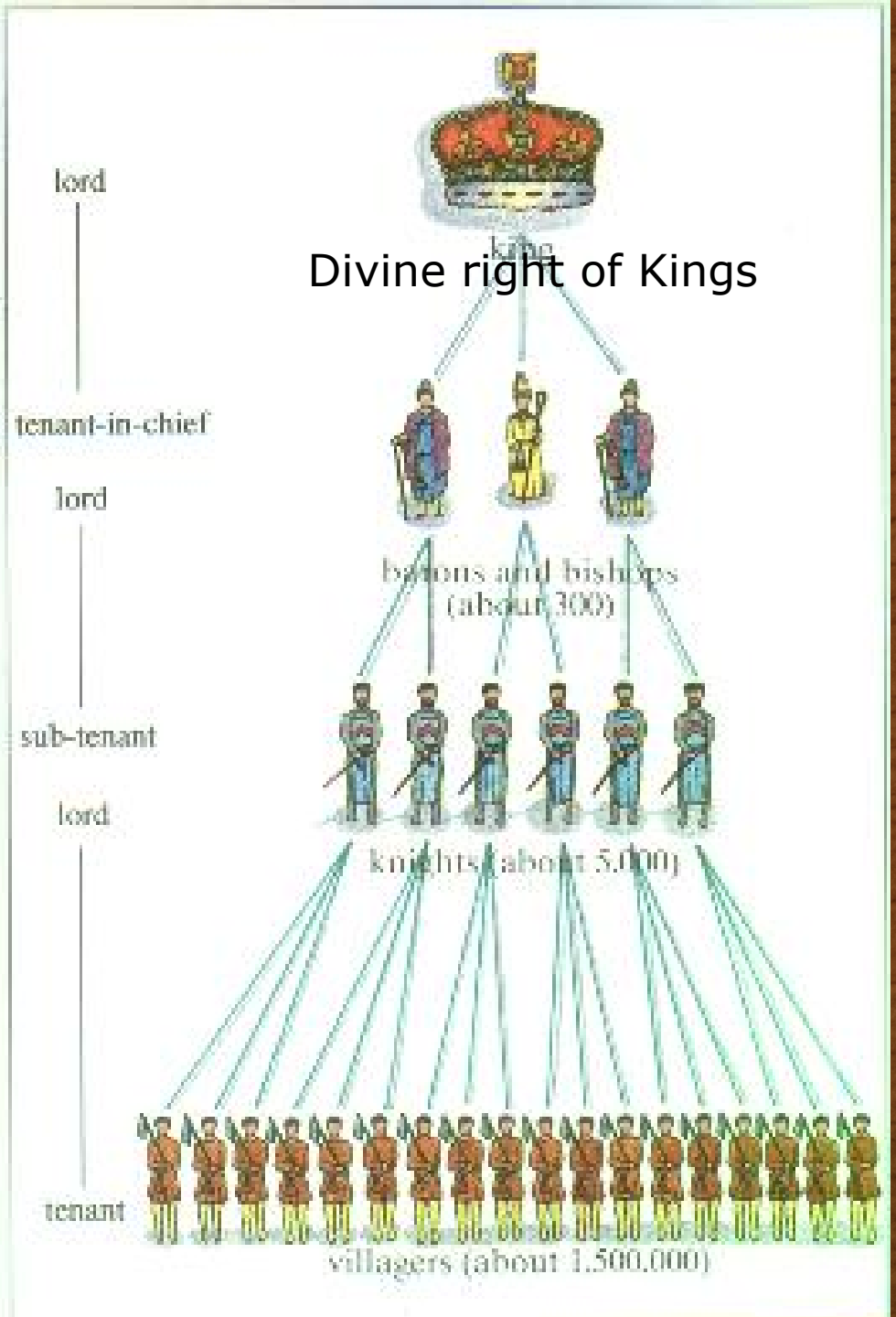
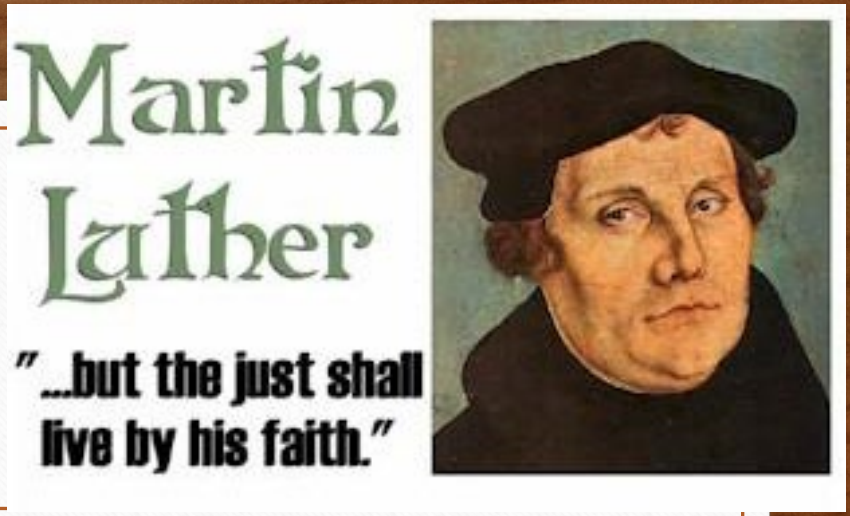

Divine right of Kings
lord
tenant-in-chief
lord
sub-tenant
lord
tenant
villagers (about 1,500,000)

Mercantilism and Commercial Capitalism: Middle Ages

- Society in the late Middle Ages was increasingly challenged by the emerging forces of
  - mercantilism
  - commercial capitalism
- The authority of the church was being eroded
  - its abuse of privilege and power was a focus of much discontent
- For many it seemed that the church had departed from the early spirit and ideals of Christianity
  - So independence from the church supported mercantilism and commercial capitalism

http://www.osterraederlauf.com/luegde/modern-history.html

New Ideologies



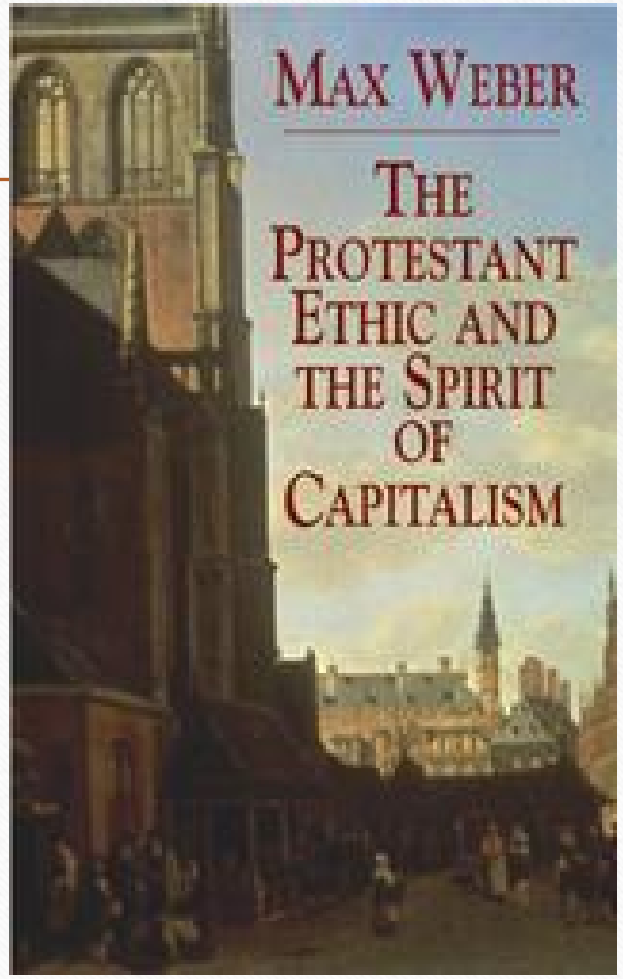
- Protestantism
  - Focuses on individuals direct relationship with his creator
  - Intermediaries not necessary
  - Both challenged and supported capitalism
- Habakkuk 2 v. 4
  - "Behold, his soul is puffed up;
  - it is not upright within him,
  - but the righteous shall live by his faith".

- Upon a door at Wittenberg
- The sound of banging could be heard.
- A theses hung for all to read,
- From Luther's hand compelled by need:
- Priest and Pope did hate his words.
- The Wild Board, his name now heard
- Reformation has begun
- And to this day still held by some

New Ideologies

- Protestant Ethic Emerges Emphasizing
  - Delayed Gratification
  - Savings
  - Material Success
    - Sign of God's grace
    - Not only the "poor inherit heaven"
    - Can enjoy life and the afterlife
- (Bowie, 1998)

Max Weber

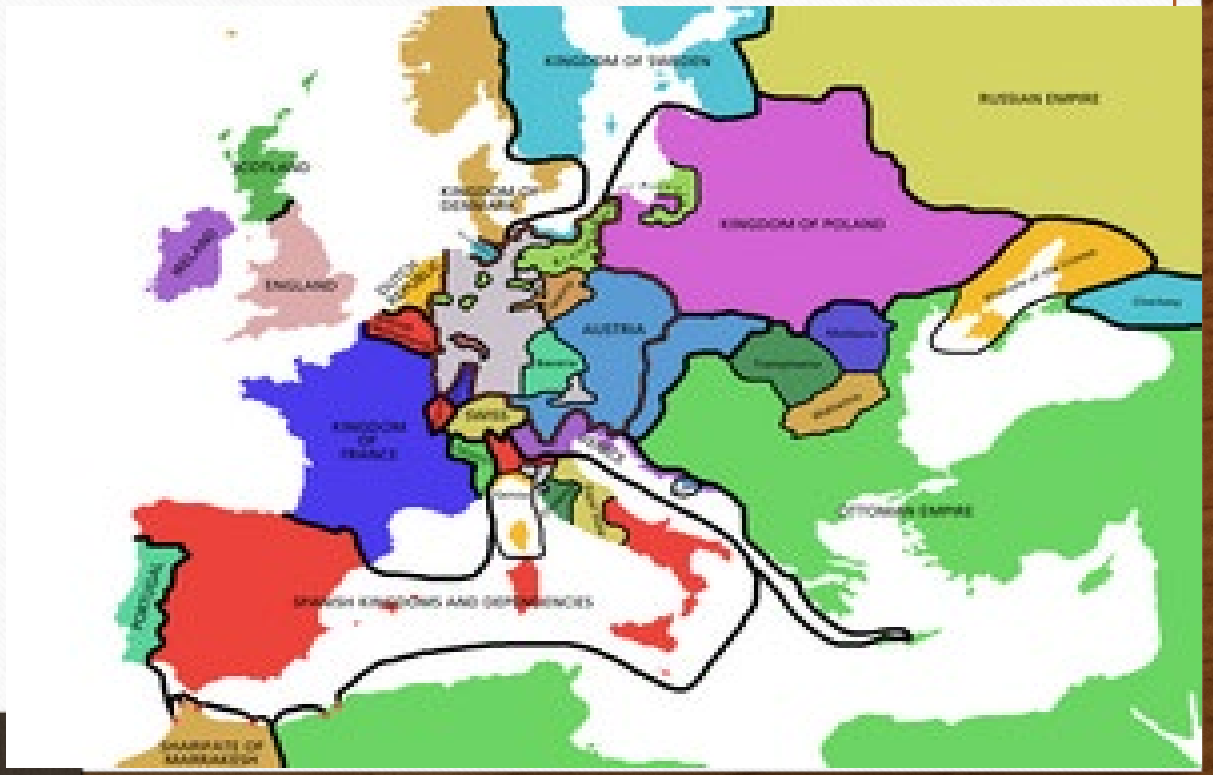


Signing the Peace Treaty of Westphalia
1648
Helped to end the 30 years war between
Spain, Holland and Germany

Nation-States Emerge

http://www.geocities.com/Athens/Sparta/5414/Europe_1648_Westphal_1884.jpg

- Peace of Westphalia
  - 1648 recognizes the Nation-State as
  - primary unit of international laws and relations



Nation-State Emerges

- Capitalism
  - instrumental in creating both
  - Markets
  - and Nation-States
- State's new duty is to
  - set rules that cause
  - Markets to Thrive

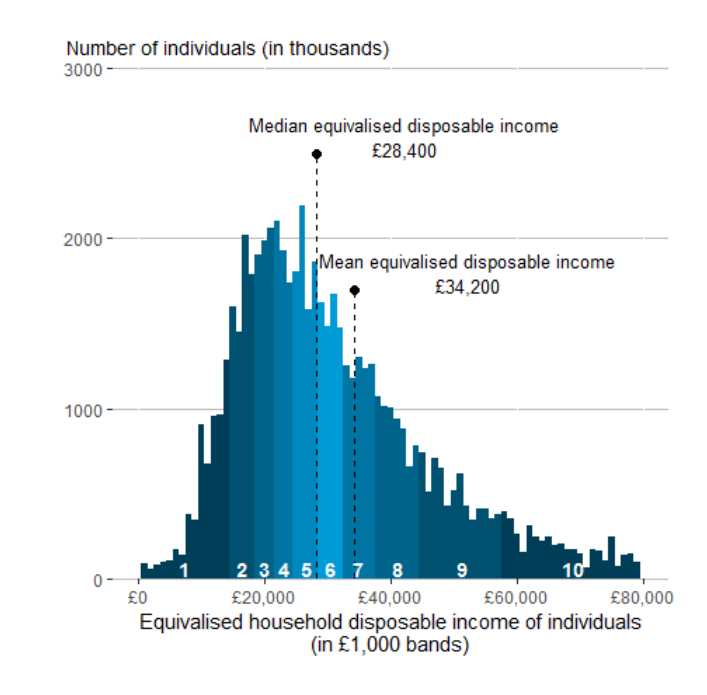
The Peace of Westphalia, 1648, recognized the new boundaries of European states that included an independent Portugal and United Netherlands. It also recognized the growth of the Ottoman Empire into the Balkans.

Summary

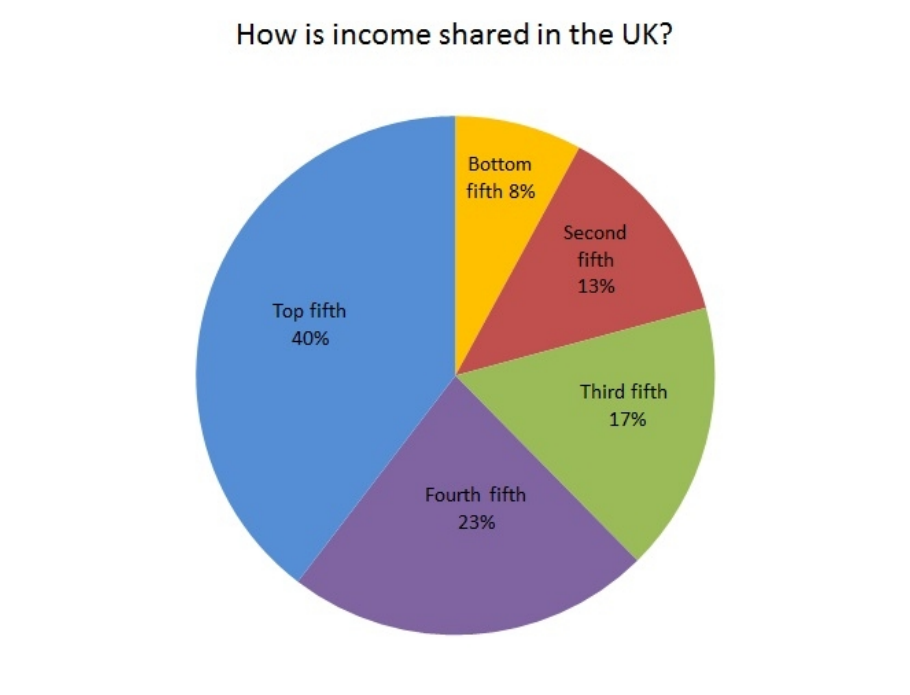
- Geographically where does capitalism come from
  - Urban Centers and new urban class
  - Northern Italy (Mediterranean Sea)
  - Lowlands, Hanseatic League… (North Sea & Baltic Sea)

Wallerstein's World System Theory Model

UK Income Distribution: Median Income 2018 £28,400



(ONS, 2020)



(Equality Trust 2019)

Work is a Moral Obligation

- Work becomes a
  - Moral Obligation
  - WE SHOULD WORK
- Auschwitz
  - Arbeit Macht Fri
  - Work sets us free

New Ideologies

- Nature is demystified
  - Controlled
- Culture becomes secularized
  - Watchwords
    - Secularism
    - Individualism
    - Rationality
    - Progress
    - Democracy
    - (new values?)

(Judge *et al*, 2014)

Grand Coulee Dam

Sustainability Economy: *Capitalism versus the Planet*

- IS Capitalism Sustainable?
  - Shaikh, A (2016) *Is Capitalism Sustainable,* https://www.youtube.com/watch?v=DsyCD4duIzg (Accessed on: 20/02/2020).

Neoliberalism

- **E**conomic ideas about free markets
- characterized by free market trade
- deregulation of financial markets
- Privatization
- Individualisation
- and the shift away from state welfare provision
  - Hanauer, N (2019) *The Dirty Secret of Capitalism – and the way forward,* https://www.youtube.com/watch?v=th3KE_H27bs (Accessed on: 20/02/2020).
  - See handout

(Littler, 2013)

Whither Capitalism:

- *The golden age of finance collapsed under its own contradictions.*
- *Edward Carr asks why it went wrong and what to do next?*
- *THE monument to Soviet central planning was supposed to have been a heap of surplus left boots without any right ones to match them.*
- *The great bull market of the past quarter century is commemorated by millions of empty houses without anyone to buy them.*
- *Gosplan drafted workers into grim factories even if their talents would have been better suited elsewhere.*
- *Finance beguiled the bright and ambitious and put them to work in the trading rooms of Wall Street and the City of London.*
- *Much of their effort was wasted you can only guess at what else they might have achieved.*

A Special Report on the Future Of Finance: Greed-and fear (Economist, 2009)

Capitalism versus People: Summers Cautions on Modest US

- A clear warning about the true health of the US economy and the state of US-Chinese economic relations has been issued by Larry Summers, President Obama's leading economic adviser.
- Summers was cautious on last week's apparently strong US growth figures.
- "What we are seeing is a
  - statistical recovery and a human recession"
    - "My judgment ... will be that GDP growth will continue at a moderate rate at least for the next several quarters. What is disturbing is the level of unemployment. This is not just a cyclical phenomenon but also a structural… phenomenon"
      - Recovery (O'Grady in Davos 2010)

Capitalism without Freedom

- ”The real issue is whether the Chinese government has created some new form of state-led capitalism. On closer inspection, its biggest contribution has been creating the space for private companies to do their thing.”

http://www.economist.com/news/business-books-quarterly/21627564-private-companies-have-been-hugely-underestimated-china-unstated-capitalism

Chinese business

Unstated capitalism

Private companies have been hugely underestimated in China

Oct 25th 2014 | From the print edition

Timekeeper | Like 80 | Tweet 22

Markets over Mao: The Rise of Private Business in China. By Nicholas Lardy. *Peterson Institute for International Economics; 185 pages; $21.95 and £17.50.* Buy from Amazon.com, Amazon.co.uk

CHINA'S state capitalism has attracted legions of admirers and critics. Admirers highlight the government's hand in guiding the economy to its superlative growth record, and see in its state-owned companies a well-oiled combination of commercial management and national mission. Critics counter that it is a brittle façade, that innovative private entrepreneurs are suffocated, losing out to state firms whose debt-heavy, politically motivated investments will eventually spell disaster for China.

Taken for granted by both camps is the idea that China is a practitioner of state capitalism. It seems self-evident: of the 95 Chinese companies on the *Fortune* 500 list of the world's

In this section

Moneybags

The right mix

Capitalism:
Why We need to Rethink Capitalism

- Tudor Jones II, P. (2015) *Why We need to Rethink Capitalism*. Available at: https://www.ted.com/talks/paul_tudor_jones_ii_why_we_need_to_rethink_capitalism?language=gu (Accessed on: 07/02/2020).

What is Capital?

- Capital is money that is invested in order to earn more money…
  - It is money that is available for investment…
  - Or an asset that can be readily turned into money..
  - By either selling it or borrowing against it…
  - Provided that ownership can be established
  - It can be measured and its title can be transferred

(Marx, 2009; McLellan,2004; Pettinger, 2016)

What is Capitalism?

- ‘It is not the nature of the activity itself that matters but the possibility of making a profit’

(Fulcher, 2015)

Is it Simply Capitalism?

Or Capitalisms?

- Merchant Capitalism:
  - The investment of money in the expectation of making a profit
- Capitalist Production/Industrial Capitalism:
  - The use of resources to make profit
  - Labour, materials and equipment
- Financial Capitalism
  - Trading in 'Futures' of Investments

(Fulcher, 2015)

Merchant Capitalism

- The investment of money in the expectation of making a profit
- Profits made at considerable risk (to the investor)
- Profit made as the result of scarcity and distance
- When price paid and price sold for is supports a profitable enterprise
- Mass supply supressing price (reducing profit)
- Forcing Diversification (further investment in the hope of profiting)

(Fulcher, 2015)

Industrial Capitalism

- Owners of the Mean of Production
- Increased competition
- Lower Profit Margins
- Diversify/expansion
- Wages (Control)
- Conflict (Unions)
- Wage Slaves (Job/work)

(Marx, 2009; Fulcher, 2015, p. 4)

What else did Capitalism Create? Having a Job

- Capitalism created Leisure Time
- Yet another commodity to be SOLD!
- Yet another form of SOCIAL CONTROL?
- Commercialisation of Leisure Time
- A separation of work and leisure time

(Porritt, 2007)

Leisure

- ‘Commercialisation of Leisure created new industries that fed back into the expansion of capitalist production’

(Fulcher, 2015, p. 9)

‘Derivatives’

- ‘A sophisticated instrument that derive value from the value of something else’
  - E.G. shares, bonds, currencies or commodities
  - coffee, sugar for example
- Buy at low value then sell at higher value later
- When perceived or actual value has risen (or fallen)

(Fulcher, 2015; Pettinger, 2016)

‘Futures’

- What function does Buying in ‘Futures’ perform?
- It is said to:
  - Reduce uncertainty
  - Reduce risk

(Fulcher, 2015)

‘Futures’

- Financial Planning for the Future
  - If a production of corn is not quite ready to harvest the crop
  - then it allows the producer to lock into an existing price by making a deal to sell later at an agreed price.

Capitalist Paradigm

- Porritt (2007, p 137) proposes that…
  - 'it is the fixed and non-negotiable aspects of capitalism in general
  - that renders it incompatible with the pursuit
  - of a sustainable community'
- Proposing that…

Capitalist Paradigm

- Porritt (2007, p 137) proposes
  - ‘the saving grace of capitalism ‘protean adaptability’
    - i.e. its ability to assume many different forms
  - Via a ‘reform from within’ strategy…making it
- a resilient paradigm
  - ‘Intellectually and Ethically acceptable’
    - to those in power and control

Financial Capital

- Plays a role in our Economy
- Reflects the Productive Power (of a Nation) of the other types of Capital enabling
  - Ownership
  - Trade
- But unlike other types it does not have 'Intrinsic Value'
- It is purely Representative of natural, human, social and manufactured capital

(Forum for the Future Porritt, 2007. p 137)

The Progress of Capitalism

- Very strongly aligned with
  - Employment
  - Meritocracy (the American dream)
  - The relative value of Wages
  - The increasing value of Leisure time

Calhoun et al (2007, p. 122-129)

Questions: Capitalist Societies?

- Institutions
- Organisations
- Groups
- Politics/Policies

- These are Social Construct(s) designed to…
  - Support or Control?
  - Care or Manage?
  - Value or Judge?

A Breakdown of Capitalisms?

- Natural Capital
- Human Capital
- Social Capital
- Manufactured Capital
- Financial Capital

(Porritt, 2007. p 137)

Human Capital:
Adam Smith 1800 Century

- Health, Knowledge, Skills and Motivation
- All of which are required for
  - 'Productive Work'
  - Emotional and Spiritual capacities
  - Investment in Education and Training
  - All central issues within a flourishing economy

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(Porritt, 2007. p 137)

Social Capital

- Its name is taken from the…
  - Social Structures, Institutions, Networks and Relationships which
  - ‘enable individuals to maintain and develop their human capital in partnership with others
  - To be more productive (rather than work in isolation)
- Examples
  - Families, communities, businesses, trade unions, voluntary organisations, legal/political systems, education and health bodies

(Porritt, 2007. p 137)

Manufactured Capital

- Manufactured Capital comprises:
  - Material Goods
  - Tools
  - Machines
  - Buildings
  - All forms of infrastructure which…
  - Contribute to the production process (but do not become embodied within its output)

(Porritt, 2007. p 137)

Natural Capital

- Also referred to as Environmental or Ecological Capital
- Is any
  - Stock or Flow of Energy or Matter that…
- Yields Valuable Goods or Services
- Several Categories/Resources that are Renewable:
  - Timber, grain for example
- Or not Renewable:
  - Fossil Fuels,
  - I.E. Natural Capital = 'not only production but to life itself'
  - (Porritt, 2007. p 137)

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