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Work and Exchange

Capitalism Versus Tradition

If the modern state poses new questions about morality, the modern capitalist economy raises new questions about reality. The capitalist economy has transformed modern society perhaps even more than the state.

What is capitalism? Where, when, and how did it originate? What problems of working and exchanging has it solved? What relation does it have to freedom, democracy, and our high standard of living? What relation does it have to problems of inequality, jobs, health, environment, and productivity? Has it made us more free? Does it create jobs? Does it give us more pay and leisure? We will try to answer some of these questions in this chapter.

BEFORE CAPITALISM: TRADITIONAL WAYS OF WORKING AND EXCHANGING

Capitalism has been defined in a lot of different ways. Any useful definition, however, must describe a series of very recent economic developments in Western history over the last five hundred years or so. It will not do to think of capitalism as an eternal or universal economic system. Nor does it make sense to think of capitalism as the system which satisfied basic or natural human needs. The fact is that a capitalist economic system is the exception rather than the rule. It was a new twist in European history after the Middle Ages and it has matured as a recognizable system only in the last couple of hundred years.

One of the best ways of seeing the uniqueness of our modern capitalist, market, or business civilization is to examine the ways in which economic activities—like working and exchanging—have been carried out in most of the other places and periods of human history. Anthropologists have found an enormous variety of economic activities in tribal and traditional peasant societies. One anthropologist, Manning Nash, has written:

> The economic life of man shows a great variety over time and space. In the New Hebrides islands (in the South Pacific), the main economic concern is the accumulation of pigs. Men raise pigs, exchange pigs, lend out pigs at interest, and finally in a large ceremonial feast destroy the pig holdings of a lifetime. Among the Bushmen of the Kalahari desert (in Southern Africa) there is no private property in productive goods, and whatever the hunting band manages to kill is shared out among the members of the group. In the Melanesian islands every gardener brings some of the yams from his plot to the chief's house. There the pile of yams grows and grows, and eventually rots, to the greater glory of the tribe. The Indians of Guatemala and Mexico live in communities each with its own economic specialty. One group produces pottery, another blankets, another lumber and wood, and the next exports its surplus maize (corn). These communities are tied together in a complex system of markets and exchange.[1]

There is so much variety in the economic lives of pre-capitalist societies that we are sure to find an exception to almost every generalization. Despite this difficulty, however, there are enough similarities among most of these societies to enable us to distinguish between pre-capitalist and capitalist societies.

We have referred to capitalist society as market society. We should be careful of using these terms too loosely. In the passage just quoted Manning Nash pointed to the existence of "a complex system of markets and exchange" in the peasant societies of Mexico and Guatemala. Indeed, there have been markets of some kind in almost all peasant societies, and some of the first cities were essentially markets—especially for exchanging produce of the countryside, crafts of the city, and imports from far away. Despite this, our notion of modern, capitalist society as a market society is still very useful. The reason for this is the pervasiveness of market relationships in capitalist society. To a great extent, all of the relationships of capitalist society tend to be market relationships. Ideally the market becomes in capitalist society a kind of "invisible hand" that supervises and determines all social relations. "Everything is for sale," said a visitor to America in the late twentieth century. "Everyone is treated like a customer—a buyer or seller." That is the sense in which market society was evolving in England in the seventeenth century. That is what Thomas Hobbes noticed in embryo.

PREMARKET EXCHANGE: HOUSEHOLDING, RECIPROCITY, AND REDISTRIBUTION

A market is a system of distribution or exchange. There are other systems too. In fact, for most of human history the market has been only a minor method of distributing and exchanging. Most past societies have relied on systems of exchange which some anthropologists have called "householding," "reciprocity," and "redistribution." In modern, capitalist society the market has replaced most of these earlier forms.

Householding is one of the oldest forms of exchange. The term reminds us of how goods are distributed in the average family household—even to a certain extent today, but much more generally in traditional, farming society. Everyone works, and everyone shares in the produce of the work. This system makes most sense to us in the family. It does not occur to the parents to refuse to feed the children because they do less work; the children have no need to buy or barter their upkeep: it is expected. Prices are not attached to goods and services. The job is done, and everyone benefits.

It may surprise us to realize that householding has been a fairly typical method of exchange in societies much larger than the family. Actually, however, it has worked among extended families, clans, tribes, and other large groups of people throughout history. Householding is essentially the production of goods for use—rather than for sale or gain. In a sense, most pre-capitalist societies have practiced a kind of householding. The ancient Greeks called it *œconomia*—the root of our word for economy. Aristotle insisted that the essence of *œconomia* was the production for the use of the group—householding. He argued that this had nothing to do with producing for gain, money, or profit through the market: such activity was very different from "economics." Today in capitalist society we define economics in exactly the opposite way.

Householding, production for use and distribution within the group, was the norm in the feudal societies of the Middle Ages as well. The medieval manor was a self-sufficient unit of production and distribution. Markets were largely irrelevant outside of the cities. The manor household, like the Roman *familia* or the Greek clan, could operate quite independently of markets. The degree of authority exercised in production and distribution varied considerably. The Roman head of the household was often something of a tyrant. So were many Western medieval lords. But that was not inevitable in householding. The southern Slav *zadruga* households, for instance, were very democratic. The politics of decision making—about who gets what—are very different from the economics of common work for common use. Manors, families, and communes can be anything from tyrannies to democracies.

A society can allocate resources and exchange goods like a large household. Perhaps most societies have. Within that household of society, and with other households or even strangers, societies have traditionally practiced some form of reciprocity or redistribution.

Reciprocity is an anthropologist's word for giving. The members of a group who think of themselves as a household give their work and the fruits of their work to the other members. They expect that the other members will return or reciprocate the gift; and the other members do what is expected. Reciprocity has often worked in tribal societies of many households as well. One of the favorite examples of anthropologists is the custom until recently of the Kwakiutl Indians of the Canadian Pacific. The Kwakiutl astonished American anthropologists, like Ruth Benedict in Patterns of Culture (1934), because their custom of gift giving seemed to be such a parody of American capitalist culture's getting and taking. Kwakiutl Indians achieved prestige in their society by giving away or even destroying more property than their rivals. Periodic festivals, "potlatches," were the occasions for a Kwakiutl to show off great wealth by giving it all away. Anthropologists have interpreted this "riches to rags" custom as a way of distributing the property—boats, beads, fish oil, and more important names, songs, and titles—more equally among the tribe. The potlatch among the Kwakiutl, and similar practices of giving or destroying property among many societies, was a system of exchange and a system of periodic leveling or equalizing. The custom ensured that everyone would be taken care of, and that no one would be too rich or powerful too long.

Reciprocal exchange was perhaps also the earliest kind of foreign trade. The classic example is the Kula ring exchange of the Trobriand Islanders who inhabit a ring of islands in the Pacific near New Guinea. Each exchange of hard goods, like pigs, yams, canoes, and pottery, is preceded by the ceremonial exchange of armbands and necklaces that the traders value much more highly. The necklaces travel clockwise, and the armbands counterclockwise, around the ring of islands. Some of the shell ornaments are highly prized. They are all thought to be much more valuable than the pigs or canoes. The Trobriander would describe the acquisition of one of these ornaments as the real purpose of the trade. But there is no bargaining for them. There can be no hoarding. Everyone has a season to own each object and then pass it on.

Reciprocal giving and taking is most common in the poorest and simplest of societies. But reciprocity is such an ingrained value in primitive and peasant societies that it fades slowly. Even today in parts of South America, Africa, and Asia that have not yet been commercialized by market attitudes and institutions, people work and live without money as if they were part of a large reciprocal family, An Egyptian who grew up in a small village says that he was surprised to learn when his family moved to Cairo that he needed money to pay for haircuts, shoes, or food. In the village the son of the barber was given bread by the baker, the son of the baker had his shoes mended by the shoemaker, and the son of the shoemaker had his hair cut by the barber, all without money, promises, or notations in an accounting book.

In Cairo he needed money, but even there credit, charity, and gifts were a normal part of life. That same Egyptian in the United States struggles today with whether or not to send "thank you cards" when he stays at the homes of other Egyptians in the United States. "To say 'thank you,'" he says, "is an insult because it ends a 'transaction.' We Egyptians are used to taking hospitality for granted. Things that are expected are not 'thanked.'" Perhaps "thank you" is our commercial society's polite, but weak alternative to reciprocity. In the less commercialized countries of the world the words "please" and "thank you" are rarely used. That may be a sign of more mutual concern rather than of less politeness, or maybe politeness itself is a sign that genuine feeling has disappeared—"virtue gone to seed" Ralph Waldo Emerson called it.

Redistribution is a kind of institutionalized reciprocity. Redistribution also involves giving and taking without prices, bargaining, money, or calculation. But redistribution is less voluntary or spontaneous. Normally, it is carried out by the chief, king, ruling officials, or other specialized agencies. Surplus goods are collected, like taxes, and held in a central store, bank, or granary. In the complex bureaucracies of ancient Mesopotamia, Egypt, India, China, and the American kingdoms of the Aztecs and Incas, large storehouses were maintained for grain, wine, pottery, cloth, ornamental objects, art work, and other goods. Frequently in the case of these empires, the goods were used to support the state bureaucracy, soldiers, and the ruling elite, as well as the emergency needs of the people. In less complex feudal societies, with a less oppressive or top-heavy bureaucracy, both collection and distribution were often more democratic. In some tribal societies, without even a feudal upper class, collection was quite voluntary and distribution benefited everyone but the chief. There was a standing joke among early anthropologists who studied American Indian tribes that you could always find the chief by looking around for the poorest man. Apparently the demands of redistribution could be so great that the chief would give away everything he could collect, leaving himself only the prestige of the tribe.

An account of redistribution among the Creek Indians in the eighteenth century shows how democratic the system could be. Before they carry off

> their crops from the field, there is a large crib or granary, erected in the plantation, which is called the king's crib; and to this each family carries and deposits a certain quantity, according to his ability or inclination, or none at all if he so chooses; this in appearance seems a tribute or revenue to the micro [chief], but in fact is designed for another purpose, i.e., that of a public treasury, supplied by a few voluntary contributions, and to which every citizen has the right of free and equal access, when his own private stores are consumed, to serve as a surplus to fly to for succour, to assist neighboring towns, whose crops may have failed, accommodate strangers, or travellers, afford provisions or supplies, when they go forth on hostile expeditions, and for all other exigencies of the state.[2]

Premarket economic systems of exchange—householding, reciprocity, or redistribution—could be voluntary or forced, democratic or imposed. That depended on the degree of social equality or class stratification and on the extent to which power was shared or monopolized. The important difference between all premarket and market systems is that the premarket systems minimized strictly economic behavior. There was really no such thing as economics or economic activity in premarket society. Everything that we would call economics was understood simply as an aspect of social life. Tradition, religion, custom, and human relationships were the cause and context of working, exchanging, providing, and allocating. One did what was expected. Work, produce, and material goods were not ends in themselves, but means to the life that was sanctioned by one's family, clan, tribe, or village.

THE ORIGINS OF CAPITALISM: MARKETS, LOGIC, AND DESIRE

The theorists of emerging capitalist society, from Thomas Hobbes to Adam Smith, imagined that selfishness, competition, bargaining, and private ownership were eternal traits of human nature, characteristic of all of human history. The discoveries of human diversity and evolving economic institutions, which we discussed in the previous section, were largely discoveries of the nineteenth century. There were forerunners, of course. One thinks of the recognition of diversity and change in the writings of Montesquieu or Vico in the early eighteenth century. But it was probably the experience of the industrial revolution in the nineteenth century that made European thinkers generally aware of the importance of human change—especially economic change. The nineteenth century was the golden age of historical study, the age of the study of evolution and origins, and the first age to suggest that human nature itself might have changed from one age to the next. The world of Darwin and Marx and anthropology could no longer imagine that the inclinations or institutions of capitalist society had existed for all time.

Defenders of the new economy in the nineteenth century—groups like the English Manchester liberals and utilitarians who spoke for the middle class of merchants and manufacturers—developed a new assumption of the naturalness of capitalist ideas and behavior which was more consistent with the historical consciousness of their age. They reasoned in effect that although capitalism had not always existed, the instinctual need and logic of capitalism had always existed, and that history was the development of that desire and logic. Their ideas were so influential that they have become almost the "common sense" of twentieth-century Americans. They imagined that primitive trading had merely become more complex over the years, that people gradually found it easier to attach price tags or money values to the things they bartered, and that local trade led to national and finally international trade as the new knowledge of marketing techniques grew. In effect, these defenders of the new system were arguing that if capitalism had not always existed at least a natural human inclination to barter had become more sophisticated. In many ways this was yet another version of human nature.

Many of us still today assume that capitalism developed logically from the inside out, from the simple to the complex, from the local to the foreign, and from the small scale to the world scale. We assume for instance that barter exchanges among friends led gradually to more efficient money exchanges, that local trade became more monetized as it became more complex, that such capitalist institutions as money, markets, prices, profits, and private property expanded from village to city to state to world as they proved their superiority over simpler ways. There is something very comforting in that assumption. It allows us to think that ideal capitalism began among friends, that it originated in small groups, and that it expanded naturally and gradually because people wanted it to. There is a good deal of comfort in knowing that things have happened in accordance with both logic and human desire.

Actually, however, nothing is further from the truth. One of the most amazing things about the history of capitalism is that most people fought every step of its expansion. The clergyman, the artisan, the farmer, the villager, the worker, the landlord, the tenant, and even many of the slowly emerging middle class fought the expansion of capitalism because it seemed to come from outside to threaten the local and the traditional ways.

The nineteenth-century defenders of capitalism were not completely mistaken, however. There was a kind of logical inevitability in the expansion of capitalism.

The logic was the expansion of markets. Market prices were less debatable than barter, and clearer than haggling. Once certain things were bought and sold, a special effort was necessary to prevent people from buying and selling other things. The quest for profit in one commodity or in one area led to negotiations in others. Markets did not have to expand. In fact most ancient civilizations prevented their expansion. But once they were allowed to expand, all of society was increasingly opened to its logic. For that reason we can trace the evolution of capitalism in the development of market society from the first markets.

Markets existed in the most ancient cities. Caravans of merchants often worked out the first roads that connected one urban civilization with another. But the ways of merchants and markets were never important in the internal economies of ancient civilizations. Outside of the urban market square it is not even correct to talk of economies. The word suggests a separate realm of activity that did not even exist in the rest of the city or the countryside. Working and exchanging in accordance with traditions of householding, reciprocity, and redistribution were simply aspects of the rest of life, subject to the same habits and personal relationships as marrying, worshiping, playing, and feuding.

Market society did not come into existence until the ways of the market permeated the whole fabric of working and exchanging. In traditional agricultural society this was all but impossible. Peasants did not even need the city's market. Those who brought a couple of eggs or a blanket into the city on market day were as happy to return with it as to sell it. If anyone had suggested turning their agricultural lives into a gigantic market where they sold their labor as time, bought and sold land as if it were eggs, or used their tools and their skills to make money, they would have been appalled. Yet it was precisely this commercialization and monetization of labor, land, and capital that did occur.

Medieval Europe of 1000 was as unlikely a seedbed for commercialization as were the ancient empires of a thousand or a couple of thousand years earlier. Just as Aristotle had reflected his age's view of the "life of craftsmen or of traders" as "devoid of nobility and hostile to perfection of character," and just as Cicero had expressed a typical Roman view that "those who buy wholesale in order to sell retail" lead "sordid" lives "because they would gain no profits without a great deal of lying," so did the Christian thinkers of medieval Europe condemn the values and activities of the marketplace. "The merchant can scarcely ever be pleasing to God," was the medieval dictum. "It is wholly sinful," Saint Thomas Aquinas wrote, "to practice fraud for the express purpose of selling a thing for more than its just price, inasmuch as a man deceives his neighbor to his loss. The doctrine of the "just price" (a "fair" price that did not take advantage of scarcity or an intermediary's shrewdness), the prohibition against usury (which first meant lending money at any interest), and the general medieval suspicion of money and merchants combined with the agricultural self-sufficiency of medieval society limited commercial activity to towns and periodic fairs.

How then did Europe become a market society? Historians point to a number of changes in European society after 1000 to account for the expansion of market ways and values. Cities multiplied, expanded, and increased their hold over the countryside almost continually after 1000 (though urban population declines in the fourteenth-century Black Death may have also spurred technological innovation and commercial experimentation). The Crusades introduced Europeans to Eastern markets, luxury goods, commercial techniques, and enough booty to set up thousands of soldiers as entrepreneurs in pepper, spices, and other commodities. European navigational, shipbuilding, and gunpowder technology outdistanced the Islamic and Chinese by 1500. European kings suppressed local trade barriers, fought rebellious nobles with national armies, and created national economic policies and industries. A whole new middle class of merchants, bankers, and manufacturers, richer than many nobles, bought respectability for their activities, their projects, and their ideals. Poor and perceptive nobles commercialized their lands by converting ancient manorial dues into fixed money rents and by enclosing lands that the peasants had used in common (e.g., half of the arable land of England) for their own use as more profitable sheep pasturage. Protective fellowships of medieval craftsmen (called "guilds") became competitive industries hiring landless labor as employees instead of training apprentices and journeymen to eventually take over.

Before 1500 the institutions of market society—money, prices, profits, private property, wage labor, and competition—were developing within the bounds of a feudal society. Feudalism had been a system of laws, customs, and political loyalties that made sense in the decentralized, agrarian, manorial economy of the Middle

Ages. Market society required and encouraged a whole new set of legal, social, and political institutions and ideas which we can call capitalism.

Capitalism was the system which gave legal, political, and social sanction to land, labor, and capital as separate market entities, convertible into money terms or prices. In feudal society, a person did not buy land, sell labor, or invest capital for the most part because they each were aspects of life rather than economic categories. Land was home, fields, or place, not real estate. Labor was activity, chores, or giving birth, not time and effort for sale. "Capital" was not even used to indicate the cattle or plows that were the peasant's or community's investment in future productivity.

When people say that capitalism is a system of private-property ownership, they mean the private ownership of capital—the productive resources of the society. They do not mean the private ownership of personal property like clothes and furniture. That sometimes causes confusion. Almost all societies have recognized the private ownership of personal property. Capitalism recognized the private ownership of what the medieval person would almost call public property—the large scale tools and resources or capital upon which future productivity depended. (Thus, when socialists talk about the abolition of private property they usually mean factories, corporations, banks, and television stations, not televisions, cars, and personal property.) To say that capital is privately owned is to say that it is not owned by everyone, but by the few who are capitalists.

Capitalism did not suddenly replace feudalism after 1500. Even by 1700 the market society had not attained the sanction of laws that legitimated land, labor, and capital as separate economic entities. Serfdom was not formally abolished in France until the revolution of 1789. Guild regulations in England, like the restriction of only two apprentices to each master hatmaker, were in effect until the repeal of the Statute of Artificers in 1813. The English industrial and commercial middle class were not fully represented in Parliament until the passage of the Reform Bill of 1832. Even today in the United States, the most advanced capitalist country in the world, there are still laws which restrict the full commercialization of life: Sunday blue laws in some states curtail shopping time; prostitution is illegal in most places; one cannot use private property or draw up a contract for absolutely any purpose that buyer and seller desire. The market is not even yet entirely supreme legally, politically, and socially. The tendency of capitalism to extend and legitimate the market in all ways of life is still not completed.

We can, however, get some idea of the opposition that capitalism faced in its youth if we look more closely at some of these examples of incomplete development today. Blue laws and anti-prostitution laws are clearly on the way out. There is almost a logical inevitability to the expansion of Sunday shopping and the legalization of prostitution. Opposition almost always seems to counter reason and evolution. If people can buy coffee on Sunday, then why not whiskey? If they can shop on Saturday, then why not on Sunday? Are we legislating what people should drink? Are we penalizing Saturday workers or American Muslims who have a Friday sabbath? The same is true of prostitution. Is not legalization preferable to hypocrisy, turning poor women into criminals, and possibly increasing the spread of venereal disease? The market is imperial. And its expansion is almost always more equitable, rational, and fair. The market eliminates black markets, prejudice, hypocrisy, and inefficiency. But its rush to equalize in commerce also takes its toll of human values: the sanctity of marriage and the family, the need for spiritual renewal, personal loyalty, friendship, and love. We may object to human beings becoming consumers and gamblers instead of sons and lovers, but each step of that protest is as futile, backward, and even illogical as the protests of peasants and artisans centuries ago.

CAPITALISM: WORK AND PAY, PRICES AND PROFITS

We are used to thinking that we work less and receive more in a capitalist economy. But the evidence is not that clear. Anthropologists are often amazed at how little time the people of primitive and traditional societies spend working. More than a hundred days of labor seems to be quite rare. Christopher Hill, the English historian, has computed that the average English worker of 1530 worked only 14 or 15 weeks for the year's needs. Two and a half centuries later, a full 52 weeks of over 12-hour days were fairly typical for the working classes. Similarly, a tabulation of the average real wages of English carpenters from 1250 to 1850 shows interesting fluctuations but no general improvement. The average wages (translated into kilograms of wheat) look like this:

1251–1300	81.0
1301–1350	94.6
1351–1400	121.8
1401–1450	155.1
1451–1500	143.5
1501–1550	122.4
1551–1600	83.0
1601–1650	48.3
1651–1700	74.1
1701–1750	94.6
1751–1800	79.6
1801–1850	94.6[3]

This table shows us that the English carpenter received the same real wages in 1850 as in 1300. His income increased until about 1450, then declined precipitously from 1450 to 1650, and only gradually returned to the thirteenth-century level by 1850. Further, there are indications that this pattern was a European, not just an English, phenomenon. The great French historian Fernand Braudel writes:

> From 1350 to 1550 Europe probably experienced a favourable period as far as individual life was concerned. Following the catastrophes of the Black Death [1348–1350] living conditions for workers were inevitably good as manpower had become scarce. Real wages have never been as high as they were then. In 1388, canons in Normandy complained that they could not find anyone to cultivate their land "who did not demand more than what six servants made at the beginning of the century." The paradox must be emphasized since it is often thought that hardship increases the farther back towards the middle ages one goes. In fact the opposite is true, as far as the standard of living of the common people—the majority—is concerned. . . . The deterioration becomes more pronounced as we move away from the "autumn" of the middle ages; it lasted right up to the middle of the nineteenth century. In some regions of Eastern Europe, certainly in the Balkans, the downward movement continued for another century, to the middle of the twentieth.[4]

Braudel's magnificent *Capitalism and Material Life 1400–1800* is full of statistical and literary evidence to support this conclusion. To take only two examples on the single issue of the consumption of meat—so dear to the stomachs of Europeans: there were 18 butchers in the small town of Montpezat in 1550, 10 in 1556, 6 in 1641, 2 in 1660, and only 1 in 1763; and after 1550 there were far more than the usual accounts of the "good old days" when "tables at village fairs and feasts sank under their heavy load," and "we ate meat every day."[5] Whether we mark the decline from 1450, 1500, or 1550 (and it certainly varied from place to place), one thing is clear. The standard of living of the majority of Europeans declined drastically with the rise of a capitalist or market economy. For this was precisely the period in which the ways of the capitalist market replaced those of traditional feudal society.

It would be foolish, of course, to date the origins of capitalism at 1492 because of Columbus's voyage or at 1494 because of the Italian invention of double-entry bookkeeping. A single year, even a single century, is too precise dating for anything so complex. Karl Marx, who began the historical study of capitalism, saw the first beginnings of capitalist production as early as the fourteenth or fifteenth century, sporadically, in certain towns of the Mediterranean but marked the capitalist era from the sixteenth century. The year 1500 may be useful, but symbolically.

Recently economic historians have turned their attention to charting price movements since they are usually a fair indicator of economic activity, and this course seems more fruitful than searching for specific beginnings. Furthermore, old ledgers and account books are full of the prices of things, and modern computer techniques make their compilation and comparison relatively easy. This is what they have discovered, From about 1150 to 1300 there was a rapid rise in prices. As we have seen, this was a period of general prosperity. Population increased, new lands were opened for cultivation, and economic production rose—but all pretty much within a feudal economic and social system.

Then from 1300 to 1450 prices fell. Marxists, who are keen on revolutionary "turning points" where one historical stage dies before another is born, refer to this period as the crisis of feudalism. The figures seem to support something very much like that. The feudal economy may have reached a point (like the Roman slave economy a thousand years earlier) where the system had passed its capacity for exploiting. Feudalism, according to the Marxists, had lasted as long as the feudal barons and clergy could extract an increasing economic surplus (work, food, dues, etc.) from the peasantry in order to keep themselves in the style to which they had become accustomed—often a style of lavish waste. After the depopulation that accompanied the Black Death (1350), the remaining commoners were more powerful. In fact, there were numerous peasant revolts in this period, and we have seen from Braudel and von Bath that the commoners' living standard peaked. Unable to get more work from the peasants, and without a machine technology to replace them, the feudal ruling classes may indeed have reached the limits of the system. As feudal incomes declined, the nobility sent their sons on interminable wars in search of land and booty and borrowed heavily from the new class of merchants and bankers that we spoke of before. Thus—and the Marxist argument is still convincing here—power may have begun to shift from the old feudal class to the new entrepreneurial money class.

It is clear, in any case, that the period from 1450 or 1500 to 1650 was one of phenomenal price rises (inflation). This had a lot to do with the influx of gold and silver from the Americas. The kingdoms of the Aztecs, Mayans, and Incas were ransacked by feudal sons from Spain. Then more gold and silver were mined in Mexico and South America by imported African slaves. Much of the gold, silver, and treasures filled Spanish and Portuguese royal treasuries. But there was so much left for commercial circulation that it fueled one of the greatest inflations that the world had ever known. The bullion probably saved feudalism in Spain and Portugal, but by raising the price level throughout Europe it forced the destitute lords of England and France to deal in the money men and commercialize their own estates. Landlords who were smart enough to adopt the values of the market saved themselves by cutting corners. They studied new methods of cultivation and new ideas of property management. They cut their costs, improved their yields, and brought their surplus to markets for profit. But the easiest corners to cut were the plots of their tenant farmers. In England, the Netherlands, and France (where population increased as quickly as prices) the feudal obligations of numerous peasants were converted into rents. Common lands that had for centuries been used by the villagers and tenants were taken over (or enclosed) by the landlords. Peasants who had barely survived with small plots and an animal or two on the commons found themselves unable to continue. A new class of landless workers was created—people without ancestral rights who could work only for others and for money. In Eastern Europe, the squeeze came as a renewed second serfdom. There peasants were not freed to be poor; their feudal obligations increased with their poverty.

We have seen how the living standard of European farmers and workers was wrecked by the drastic inflation of the long sixteenth-century price revolution. The bullion of the Americas was crucial in inflaming the inflation. But neither gold nor inflation must necessarily destroy the well-being of the people. If the European class structure had been egalitarian enough so that the new bullion could be distributed evenly, all Europeans would have been richer at the expense of the American losers. European peasants would have been able to use the gold to buy Arabian coffees, Indian teas, or Chinese spices and silks. Alternatively, their mercantilist governments would have been able to use the bullion to develop national industries that could have made the lives of all Europeans easier. But the bullion did not enter an economically democratic society. It entered a society where the old feudal ruling class was in debt, and neither they nor the royal governments were as wealthy as the evolving merchant, financial, and industrial classes. As usual in a class-divided society, the new wealth went to the old wealth. And the entrepreneurial class that knew money and its uses used the new money effectively. Merchant adventuring companies and joint stock companies were created to establish new mines and plantations, build ships, carry on trade, and eventually create the factories and goods of the industrial revolution.

Fernand Braudel noticed the crucial fact about the European expansion that began after 1492: "the gold and silver of the New World enabled Europe to live above its means, to invest beyond its savings."[6] No society develops economically or technologically without saving some of the productive capacity of the present in order to build capital for the future. Merchant ships, machines, or factories can only be built if people consume less (or spend less of their energy and resources on immediate consumption). Investment in future productivity requires savings. Thanks largely to the resources and inhabitants of the Americas and the inhabitants of Africa, Europe was able to invest beyond its savings. The gold and silver savings of centuries of American Indian labor, and the forced labor of native Americans and Africans in mines and plantations, allowed some Europeans to begin the massive investment in future productivity that culminated in the industrial revolution.

Since the more a society saves and invests, the more productive it becomes, and consequently the more it is able to save and invest, some historians have spoken of "takeoff" stages of economic growth. Western Europe experienced its first takeoff into sustained economic growth in this period, 1500–1650. Although much of the bullion was wasted in an economic sense (that is, not invested in future productivity), much of it also fueled economic and technological development. This was especially true of England, so much so that historians have frequently noticed a first industrial revolution in England between 1540 and 1640 that preceded the great industrial revolution by over a century.

"During the last sixty years of the sixteenth century," the historian John U. Nef has written, "the first paper and gunpowder mills, the first cannon foundries, the first alum and copper factories, the first sugar refineries, and the first considerable salpetre works were all introduced"[7] into England. "Between 1540 and 1640," he adds, "the process of iron-making assumed a new and highly capitalistic form," iron output increased several times, coal output increased at least eightfold, and the issue of mineral rights became as much of a political issue as the enclosures of farm land. Private mills and manufactures which employed a thousand workers were not uncommon.

Thus, the period from 1500 to 1650 was one in which a general rise in the price level of three or four times (15 times on the Paris wheat market) both reflected and fueled a capitalistic economic takeoff. In this period capitalists commercialized agriculture, incorporated huge trading companies, banked the mercantilist policies of monarchs, and began applying their fortunes to large-scale industrial production. In this period Europe became the richest and most powerful amalgam of states in the world. Royal, national, and private fortunes were made that had been rare for emperors of the past. And yet—remember von Bath and Braudel—this was precisely the period in which the income and standard of living of the average European declined drastically. The English carpenter had less than a third of the real income in 1650 that he had enjoyed in 1450. Like the African, the American Indian, and the serfs of the European periphery, the common people in the core of capitalist economic growth paid for that growth while others reaped the profits.

We can see the same contradiction between capitalist economic growth and popular living standards if we follow the historians of price movements from 1650 to 1850. Very roughly, the period from 1650 to 1750 was one of falling prices accompanied by declines in population, food production, economic activity, and profits. It was, however, a period in which the English carpenter doubled his real income. Conversely, the period from 1750 to 1850 witnessed rapidly rising prices, population, production, and profits. This was the period of gigantic increases in energy, income, and technological productivity—the full industrial revolution. And average incomes remained constant despite the fantastic new wealth. The conclusion seems inescapable. Capitalist economic productivity has thrived on the sacrifices of the mass of people in order to benefit the few.

After 1850, of course, the industrial technology itself was more than adequate to provide a rising standard of living for descendants of those who made the important initial sacrifices. It did that for some Europeans and North Americans. That it did not do so for the rest of the inhabitants of the world market economy may have been due more to the failures of the economic system than to the limits of the technology.

CAPITALISM AND THE INDUSTRIAL REVOLUTION

The capitalist economic growth of 1500–1650 was mainly agricultural and commercial rather than industrial. The countryside was transformed into large estates geared to production for market while peasant farmers were dispossessed, often becoming landless day laborers for wages. The largest fortunes, besides those of the landlords, accrued to merchants, traders, and their financial backers, rather than to industrialists as yet. Commercial capitalism was supplanted by industrial capitalism in the process of the great industrial revolution that began after 1750.

We have only to look at the countries of the contemporary developing world to see how difficult it is to conduct an industrial revolution on a capitalist basis. Over and over again, in Russia, China, and the Third World, industrialization has taken a collectivist or state-sponsored form. How, then, was it possible for the emerging nations of the eighteenth century to industrialize when no one imagined what an industrial revolution might be (the term was not invented until the 1820s), and when the competing interests of capitalist society fought against collective, planned action?

The answer lies in the peculiarities of Britain at the end of the eighteenth century, because it is unlikely that the first capitalist industrialization would have occurred anywhere else. The English had a government that was sympathetic to the interests of private capitalists and industrial development. English agriculture was efficient enough to support a large class of potential workers. Population pressure had been steep enough (and enclosure movements ruthless enough) to ensure a vast quantity of cheap labor after 1750. But, perhaps most significantly, Britain emerged victorious from two centuries of military and naval conflict (first with the Spanish and Dutch, and then with the French) by 1763, which gave it access to the markets and resources of most of the world from India to the Americas.

England in the 1780s (even after the political loss of the United States) was in a position similar to Spain in the 1500s. But while the Spanish nobility choked itself on the booty of colonialism, the English industrial class made money. The British cotton industry was the key. It grew with the English conquest of India, the slave trade, the cotton plantations of the Caribbean and the Americas, and the huge market of its colonies. Indian cottons (calicos) were recognized as the finest in the world. The English East India Company (agents of the older style commercial or trading capitalism) sold the Indian cloth throughout Europe. Some of the profits went from Liverpool into the slave trade and the Caribbean plantations. Eventually the merchants of Liverpool were outfoxed by the textile mill owners of Lancashire. When Indian revolts interrupted the calicos, Lancashire bought Caribbean cotton and gradually took over the trade. The old vested interests of the East India Company and Liverpool merchants were finally undermined as the producers secured from Parliament import bans on calicos. Industrial capitalism took over. Between 1750 and 1769 British cotton exports increased over ten times. By 1820 the British were exporting over 200 million yards of cotton. By 1840 they exported that much to Europe alone, and over another 500 million yards to the colonies. Even the ancient Indian industry was systematically deindustrialized to become a market for Lancashire cotton. India took 11 million yards in 1820 and 145 million by 1840.[8]

Cotton was more appropriate to lead an industrial revolution than anyone could have known at the time. With slave labor on the plantations the cost of raw materials was miniscule. Slaves did not have to be paid anything close to the value of their work. English spinners and weavers were numerous, disorganized, and consequently also cheap. Under the earlier domestic "putting out" system, many had learned spinning and weaving at home in order to augment their incomes. Then there was no overhead for the merchants who simply brought them raw materials and bought the finished products. But domestic production was never extensive enough to trigger an industrial revolution. It would never have developed into the mass production which creates its own demand. The worldwide English markets offered the possibility of seemingly insatiable demand. Every slave, every Indian, every South American could be sold a shirt. Thus, cotton, combined with world dominion, was one industry where goods could be produced cheaply on a massive scale. Conversion from domestic to factory production was also relatively simple and cheap. The construction of factories, spinning wheels, and weaving looms could be financed out of profits, because the profits were enormous. Robert Owen started with a borrowed £100 (about $200) in 1789, and twenty years later he was able to buy out his partners with £84,000 in cash. Even the technology of cotton was ideally suited to an industrial takeoff. It benefited enormously from slight improvements. The spinning jenny, the water frame, and later the power loom were adaptations of existing machinery that required little scientific insight and paid for themselves in vastly increased production.

Far more than any other new industry, cotton propelled the British industrial revolution. In 1830 the words "industry" and "factory" were practically synonymous with cotton production. In 1833, 1.5 million people were employed in cotton production. Between 1816 and 1848 cotton amounted to 40 or 50 percent of British exports. Cotton was both wind and weather vane of the British economy. It caused and signaled the successes and contradictions of capitalist industrialization.

Its successes were extraordinary. The world was supplied with cotton clothing in vastly greater quantities and at cheaper prices than would ever have been thought possible before. Between 1785 and 1850 British production of cotton cloth increased from 40 million to over 2 billion yards per year. While production increased over 50 times, the price of cloth dropped to about one-tenth of the 1785 level. Competition not only exploded output and trimmed prices, it also forced an endless series of inventions. In cotton spinning alone there were 39 new patents between 1800 and 1820, 51 in the 1820s, 86 in the 1830s, and 156 in the 1840s. Creative energies were unleashed that transformed human productivity more completely in 50 years than in the previous five hundred—perhaps even five thousand.

CAPITALIST CONTRADICTIONS AND CONTRACTIONS

But in the midst of success, there began to appear contradictions in the capitalist economy which were also of imposing scale. The age-old cycle of economic expansion and contraction, which had previously been caused by long-term fluctuations in population growth or by natural catastrophes and agricultural failures, was intensified, shortened, and given artificial human causes. For the first time productivity, rather than want, caused economic contraction. Success in the competitive market depended on continually expanding growth. Without coordination or planning, with only market prices as a guide, entrepreneurs were inevitably drawn to what was momentarily the most profitable enterprise. In the early nineteenth century that was cotton. Because the cotton industry was competitive, many could enter with modest capital; and many did because the profits were so high. But competition cut prices. Costs were more constant. So profit margins shrank. In 1784 the selling price of a pound of spun cotton yarn was 11 shillings, the raw cotton was 2 shillings, leaving a profit margin of 9 shillings. That margin tempted so many that by 1812 the selling price had been trimmed to 2-1/2 shillings, but the cost had been reduced to only 1-1/2 shillings, leaving only a single shilling profit. And since businesses are easier to enter than leave, each entrepreneur had to sell nine times the quantity of 1784 to do only as well. For many that was actually possible in 1812. Expansion was enormous, but a saturation point always loomed on the horizon. By 1832 the selling price had been cut to 1 shilling and the cost of raw cotton to a little more than half a shilling, leaving a profit margin of less than half a shilling. Volume had to increase 18 times, and that was asking too much. By the 1830s and early 1840s, the market that seemed so insatiable was becoming absorbed. The falling rate of profit could no longer be compensated by multiplied sales. The competitors had priced each other out because the market could not continue to expand at a multiplying rate. Indeed, no market can.

There were also social contradictions to this competitive struggle. The gradually tightening profit squeeze forced entrepreneurs to try to cut costs by improving machinery and reducing wages. As a result, the technological capacity of the society (its wealth, power, and energy), and the wealth of the already wealthy, increased as the wages of the poor declined. The average weekly wage of the hand-loom weaver in Bolton declined from 33 shillings in 1795 to 14 shillings in 1815, and then to 5-1/2 shillings in 1829–1834.

Poverty amidst affluence: that was the hallmark of capitalist industrialization. By the late 1830s and early 1840s the saturated cotton market brought about the first industrial depression, forcing five hundred thousand handloom weavers to starve and a much smaller number of successful entrepreneurs to find a place to invest fortunes which totaled about 60 million pounds a year. Some of the capitalists spent their profits on luxuries and large estates and mansions in an attempt to ape the style of the aristocracy. But far more of this new money class were savers rather than spenders. That is how they had been successful (even when they were forcing others to save), and that is what they hoped to continue to do. If they had all behaved like aristocrats, the windfall profits might have left England in the 1850s not much more productive than Spain in the seventeenth century.

RAILROADED TO THE RESCUE

The industrial takeoff continued because cotton profits were invested—almost by chance—in an industry which would create a stock of capital goods that would transform the world and keep the process going. That industry was railroads. The railroad solved a problem of capitalist industrialization that few could have foreseen at the time. More accurately it answered a whole series of questions that sprung from the contradictions of capitalist expansion. Looking back now we can ask those questions. How is it possible for a private enterprise economy to develop a capital goods capacity (that complex of iron- and steelworks, heavy machinery, transportation and communication networks that full industrialization requires) when individual investors, unlike governments, compete in already existing markets for the greatest immediate return? How can individual investors be induced by the market to sink their money into expensive productive facilities that are socially useful but not very profitable? How to keep the economy going, so that it can rebound from each depression? And, what can be done with all of that money that was made by a few—even in the midst of economic collapse?

From the standpoint of the investors of the 1830s and 1840s the question was what to do with their money—that £60 million per year. Giving it to the poor was out of the question, of course, and that would not be a good investment even in a social sense: it wouldn't increase productivity. South American loans were big in the 1820s, but by the 1830s many of them were worthless pieces of paper. Railroads seemed an unlikely alternative. They returned not the hundreds or even thousands percent profits of early cotton expansion, but only 3.7 percent in 1855. The answer is that rails were really the only alternative. There was simply too much money to invest in any other way. And, as John Francis said in 1851, the railroad's "absorption of capital was at least an absorption, if unsuccessful, in the country that produced it. Unlike foreign mines and foreign loans, they could not be exhausted or utterly valueless."[9]

No doubt the otherwise irrational "railway manias" of investment in 1835–1837 and 1844–1847 were also enflamed by promoters and speculators who catered to the fantasies of the new class for speed and power. The railroad became the symbol of the age and its movers. Even the shrewdest, most calculating investor sometimes puts his money where his heart is. Actually, the market may have played only a secondary role in luring investment where it was needed. And in the United States it was government subsidy (including land grants of over 130 million acres or 7 percent of the nation) combined with Congressional bribes that made rail investment profitable.

Private enterprise, public enterprise, or passion—whatever the reason—the railroad was just what was needed to channel huge profits into productive investments, create a capital goods industry and a transportation network, revive the economy, and send it soaring. Between 1830 and 1850 world railroad mileage rose from a few dozen to 23,500. In the same period British output of both coal and iron tripled. The techniques for the mass production of steel followed naturally in the next decades.

The history of the English industrial revolution between 1780 and 1850, its formative stage, reminds us of the difficulties of capitalist industrialization. We have grown so used to crediting the wealth of industrial society to capitalism, that we have to be reminded from time to time that capitalism and industry are not synonymous. It is possible that the first industrial revolution could not have been achieved in a noncapitalist economy. The power of even the strongest mercantilist rulers in the eighteenth century was probably not sufficient to bring about collectivist industrialization—and besides, the middle class was too willing to play a role. But capitalist industrialization was not entirely a private affair. National mercantilist policy, tariffs, and encouragement were essential. And the private free enterprise aspects of the capitalist industrialization were often mindlessly unplanned and socially disastrous. The highly organized state-planned industrializations of Russia and China in the twentieth century may have sacrificed a generation of workers and peasants. But the unplanned, chaotic, profiteering industrializations of England and the West may have been just as humanly expensive over a longer time.

FOR FURTHER READING

The subject of this chapter is one of the most contentious among world historians today. All agree that the economic rise of the West (Europe and North America) has been a major factor in modern world history, but the timing and causes of that development are widely debated. At one extreme stands the traditional argument that this process of Western economic growth, the *European Miracle* as Eric Jones called it, began long ago and had its roots in distinctive European ideas and institutions. The best statement of this position is David Landes's very readable *The Wealth and Poverty of Nation.* At the other extreme are books like Andre Gunder Frank's *ReOrient* and Kenneth Pomeranz's *The Great Divergence*, which argue that the European economy did not eclipse the Chinese until the nineteenth century, and that even them it was based on a certain amount of luck and plunder rather than any long term European cultural advantage. In support of this position, James Blaut's *The Colonizer's Model of the World* disputes every claim to Europe cultural precociousness and traces the rise of Europe to its conquest of the Americas. More temperately, R. Bin Wong's *China Transformed* shows how Chinese development before 1850 was on a different, but not necessarily slower, track than Europe's.

For medieval and early modern Europe, Robert S. Lopez's *The Commercial Revolution of the Middle Ages, 950–1350* and Carlo Cipolla's *Before the Industrial Revolution: European Society and Economy, 1000–1700* are excellent introductions. Lopez's *The Birth of Europe* as well as Cipolla's *Money, Prices and Civilization in the Mediterranean World* are also very valuable. Robert-Henri Bautier's *The Economic Development of Medieval Europe* is especially well illustrated.

The alternative to these studies which stress early European capitalist economic development has not been to deny it, but to put it a global context, a process that began with Fernand Braudel's magnificent three volume *Civilization and Capitalism: 15th–18th Century*. Janet Abu-Lughod's *Before European Hegemony* outlined the global economy from 1250–1350. K. N. Chaudhuri's *Asia Before Europe* painted lay-