

# Capitalist society



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**What are the defining characteristics of a capitalist society? Which characteristics have held constant, and which been transformed, in the period since the 1970s?**

In this essay I am going to examine the six main characteristics of capitalism, as outlined by Adam Smith in his book *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776). To aid me in this I shall include references from a broad range of Sociologists in order to elaborate on Smith's points and provide elucidated examples. I then plan to discuss how these characteristics have been transformed since the end of the rapid economic growth post World War Two in the 1970's and the catalysts for these transformations. Prior to this I am going to give an overview of the definition and inception of capitalism.

Edmund Burke (1795) defines a capitalist society as one in which even labour is seen as a commodity; the means of production are privately owned by the bourgeoisie whom pay the proletariat a wage in exchange for their labour. Goods are produced in accordance with what will make the greatest profit for the bourgeoisie rather than to comply with the needs of the consumer base. The history of capitalism can be traced back as early as the 8th century, in his book *Capitalism in Medieval Islam*, The Journal of Economic History Sabhi Labib refers to this as, 'Islamic Capitalism'; the stability and relatively high value of the dinar currency led to the establishment of one of the first economies where money was traded in exchange for goods or services. However capitalism didn't become dominant in the 'West' until the 18th century, the catalyst for this was the French revolution of 1789.

During this time social stress built due partially to an excessive population, which led to food shortages and disease epidemics. Despite the recent growth of capitalism due to increases in overseas trade and thus the continued growth of the economy the majority of French citizens (especially in rural areas) continued to live at or below the poverty level. Furthermore the stratification system of dividing the population into a hierarchy of social orders at birth caused social unrest. People wanted social change but were unwilling to act, until the fall of Bastille. The storming of the French prison by a group of middle class demonstrators protesting the dismissal of Jacques Necker effectively acted as a catalyst for the revolution; people began to realise that drastic action could bring about social change.

Violence dominated the French Revolution; King Louis XVI was dethroned and beheaded and in 1793/1794 thousands more also met this fate, executed because they were thought to be anti-revolution. The French Revolutionary government, who had seized power during the political instability that followed the abolishment of the monarchy, entered war with most of the major powers in Europe, a war that outlasted the revolution. Throughout the bloodshed a number of important changes took place, the most radical of these being the abolition of feudalism and the establishment of a new order. A massive shifting of power from the Roman Catholic Church to the state took place; property was taken from the Church and members of the clergy were forced to sign an oath swearing loyalty to the state.

The French revolution was swiftly followed by the Industrial Revolution in Britain, which in turn led to the spread of revolution across Europe. The Industrial Revolution brought an end to feudal society in Britain and a

capitalist economic system began to develop through the growth of free labour which liberated industries such as the textile industry. E. A Wrigley wrote that industrialisation was the product of a steady increase in per capita income (1972). Though it should be noted that the economic changes were not the only factors to contribute to the rise in capitalism, the process also involves a wider set of social changes (Kumar 1978) for example Max Weber believed the Protestant ethic was a driving force in the development of capitalism.

Now I have given an overview in to the development of capitalist societies I am going to discuss the characteristics associated with them. As previously stated Adam Smith outlined six characteristics of the capitalist society, the foundation of these characteristics was the notion of freedom; Smith believed that capitalism was characterised by individuals having both freedom of enterprise, that is the freedom and right to own property and/or a business and the freedom to dictate their own labour and consumer habits (freedom of economic choice). This freedom is however restricted by human need for sustenance and the means of production,

' He is not forced to live according to the plan of a planning authority enforcing its unique plan by the police, i. e., the social apparatus of compulsion and coercion. What restricts the individual's freedom is not other people's violence or threat of violence, but the physiological structure of his body and the inescapable nature-given scarcity of the factors of production.'

(Mises, L. The Anti-capitalistic Mentality, 1956 CH. 1)

A further characteristic put forward by Smith was the division of labour; for humans to carry out this production of materials they have to form what are known as, 'relations of production,' and divisions of labour must be made which are determined by the means of production at the time and whom owns them. According to Geoff Pilling (1980) for these relations of production take on the form of classes, as they have done present day, the productive forces must reach a certain level of growth (he further noted that if productive forces continued to increase to a higher level society may return to being class-less).

To illustrate Adam Smith's theory that within in a capitalist society there are high levels of self interest it is useful to look at the work of Marx. Marx used the model of a modern capitalist society as an example of how we can look at how the unequal distribution of the means of production leads to class development and thus class conflict. The bourgeoisie (ruling class) own the means of production, which means that for the proletariat (working class) to gain the materials they need to sustain life they must exchange their labour for a wage. According to Marx, capitalism is driven by an innate greed, especially within the ruling class; capitalists try to find ways to increase workers efficiency and force them to work longer hours. Caporaso and Levine (1992) noted,

' As a result profit increases, real wage (subsistence) remains the same the worker works harder, and longer whilst his share of the product declines.'

This sets the interests of the two classes in opposition each acting in accordance with their own desires, as the working class are trying to limit the amount of exploitation they suffer.

In order to control excesses of both individual and collective self interest capitalist societies require a competitive market,

' As it is the power of exchanging that gives occasion to the division of labour, so the extent of this division must always be limited by the extent of that power, or, in other words, by the extent of the market.' (Smith, A The Wealth of Nations, Book I, Chapter III, 1845)

To ensure this competitive market there must be a large population of buyers and sellers, this is to ensure that no one person or group of peoples can dictate the price of a good or service by manipulating the supply or demand. One recent example of a company attempting to manipulate the supply/demand chain is that of Apple. The corporation is one of the main buyers of NAND flash memory chips, they are accused of indicating to their suppliers that they require larger volumes of stock than they actually intend to purchase. In order to meet this demand the suppliers increase production and as a result are left with a surplus amount of stock which they are forced to sell at a reduced rate. Moreover a competitive market must allow everyone free entrance and exit from the marketplace and must not restrict knowledge; both buyers and sellers must be aware of the markets that exist and the range of prices.

The final characteristic of a capitalist society given by Adam Smith is that of limited government or laissez-faire, however it is a theory that only works if <https://assignbuster.com/capitalist-society/>

the aforementioned five characteristics are fulfilling their role. Smith believed that the government should not intervene in the marketplace as that would ruin its chances of operating efficiently and to its full potential. He saw it as the government's role to police the marketplace by creating and enforcing laws to ensure fair practice as well as helping to settle disputes.

Now I have provided insight in to the characteristics of a capitalist society I am going to discuss how economic events, including two global recessions, over the past forty years have affected the characteristics and policies of the capitalist system.

World War Two was the catalyst for the beginning of mass production of goods, this was known as Fordism. The process was named after Henry Ford, whom helped develop the first car that was economically viable for the working class through the use of assembly lines. Not only did this method of mass production lower the price of the end product, it also enabled Ford to hire unskilled workers which helped reduce unemployment at the time. Wages in his factory were high, at five dollars a day which enabled his employees to become consumers - through this Ford managed to boost the economy. The practice of Fordism helped overcome the economic depression that occurred during the 1930's as it decreased the numbers of unemployed and increased the efficiency of workers meaning that profits rose. However the Fordist work structure was abandoned in the 1970's when economic crisis put an end to the post-war boom. The causes of this economic downturn were the oil crisis of 1973, the 1973-74 stock market crash, a period of slow economic growth (stagnation) and inflation. Gamble and Walton (1976) used statistics to show that it was no longer realistic for '  
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Western' societies to practice Fordism; they found that by 1975 3.5% of the UK was unemployed (which went against the Fordist ideal of full employment) and that inflation had increased by 27%. The aforementioned factors combined led to a massive decrease in consumerism.

This economic crisis caused dramatic changes within the capitalist system and the development of a new system of economic production post-1970 that is often called Post-Fordism. It should however be noted that although the economic downturn was the main driving force for the introduction of Post-Fordism, globalisation and advances in technology also aided the transformation. Flexible production defines Post-Fordism; producers began to look more closely at the individual needs of their consumer base and produce small amounts of specialised goods rather than mass producing standardised products. One example of this is that of 'Third Italy,' this was the name given to regions of Italy such as Tuscany and Veneto that were encouraged by the Italian government to produce small quantities of high quality products. The goods were produced in small workshops with a workforce of fewer than fifty people and workshops from different regions often pooled their resources in order to purchase machinery.

Despite the fact that these unique products were highly desirable to consumers and thus enabled these small companies to charge more, advances in technology during the 1990's led to many corporations once again succumbing to mass production. Writing of Benetton, whom started as a small family business in Veneto (Third Italy) before becoming a large corporation, Castells stated,



' New technologies allow for the transformation of assembly lines characteristic of the large corporation into easy-to-program production units that can be sensitive to variations in the market (product flexibility) and in the changes of technological inputs (process flexibility).' (2000: 167)

This product and process flexibility has enabled Benetton to maintain their individuality and the exclusive feel of their products regardless of their current status as a global fashion brand with over 6, 000 retail outlets.

Another such change is the deregulation of markets. Reich (2007) wrote that post Second World War capitalist society was dominated by oligopolies whom controlled the industry; they were aided by government regulation that allowed them to keep out competition. Changes in the seventies however reduced the power of these large conglomerates as the government simplified laws regarding the market place, this led to a massive increase in competition as it became easier to start up businesses. Competition was further increased by the globalisation of the capitalist economy as corporations began increasing their consumer base by seeking larger international markets.

The deregulation of markets is a product of the theory of Neoliberalism, which aims to increase the efficiency of governments and improve economies by transferring some economic control from the public sector to the private sector (Cohen 2007). This policy complies with Smith's theory of laissez-faire as it reduces government intervention. Margret Thatcher, whom served as prime minister of the UK for eleven years was an advocate of this policy; between 1979 and 1990 she oversaw the privatisation most of the

United Kingdom's utilities including British Telecom, British Railways and bus services throughout London. And although the current government has yet to privatise any public services there does not appear to be any intention of reversing the work done by Thatcher in reforming the economy.

There is no doubt that the capitalist system has undergone many transformations over the last few decades; the changes to economic policy caused by the current global recession serve to reinforce this. However the foundation of capitalism and the core values of the system remain intact; the essence of capitalism is still profit. The proletariat are still exploited by the bourgeoisie and the rich-poor divide increases each passing year (particularly in less economically developed countries – for example in 2007 the amount of billionaires in India almost doubled). Adam Smith's vision of a competitive market that could not be dictated by any one corporation now seems too idealistic; the 'free' market is controlled by those who own large conglomerates, their wealth ensuring that nothing stands in their way.

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