

# The history and characteristics of capitalism



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## **Introduction**

Since the early time, there has been no clear cut definition of the concept, Capitalism. It has often been assumed by economists and theorists that it has existed if not forever, then for most of human history. According to the Oxford English Dictionary the term Capitalism was first used by novelist William Makepeace Thackeray, in 1854 in his novel ' The Newcomes', where he referred to the term as “ having ownership of capital and not as a system of production”. However, in the 19th century, capitalism was defined as “ an economic system characterized by private or corporation ownership of capital goods, by investments that are determined by private decision rather than by state control, and by prices, production and the distribution of goods that are determined mainly in free market”[1].

Capitalism is a private ownership based on the means of production and distribution of goods characterized by a free competitive market and motivation by profit, in other words, an economics system based on survival of the fittest.

## **History of Capitalism**

Some theorists are of the opinion that there are three periods of Capitalism known as early, middle and late periods, while others consider capitalism to be a social aspect that cannot be bounded by historical era, but rather by the recognition of timeless elements of the human condition.

The earliest forms of capitalism originated in the fourteenth century crisis, a conflict that developed between the land-owning aristocracy (the lords) and the agricultural producers (the serfs). Feudalism inhibited the development

of capitalism in a number of ways. The serfs were forced to produce sufficient food for the lords as a result of this the lords had no interest in the advancement of technology, but rather expanded their power and wealth through military means. There was no competitive pressure for them to innovate because they were not producing to sell on the market. The transition from feudalism to capitalism was primarily driven by the mechanic of war and not by the politics of wealth and production techniques.

However, modern capitalism arises in the early middle ages, between the 16th and 18th century, when mercantilism was established. Mercantilism is defined as a distribution of goods that are bought at a certain price and sold at a higher price in order to generate profits. It provided the basic principles of capitalism in that it was the “ large-scale realization of a profit by acquiring goods for lower prices than to the sell them”[2]. In 18th century mercantilism declined when a group of economic theorists led by Adam Smith challenged mercantilist doctrines. They believed that a state could only increase its wealth at the expense of another state’s wealth while the amount of the world’s wealth remained constant. Also, as a result of the decline in mercantilism, Industrial capitalism arises in the mid-18th century due to the vast accumulation of capital under the phase of merchant capitalism and its investment in machinery. Industrial capitalism marked development of manufacturing factory system and led to the global domination of capitalist mode of production.

During the 19th century capitalism allowed great increase in productivity. It triggered great social changes, which remained in place during the twentieth century where it was established as the world’s most prevalent economic

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model after the collapse of the USSR. By the time the twenty-first century approached us, capitalism had become a widely pervasive economic system worldwide.

## **Variants of Capitalism**

From our readings, we have uncovered that throughout history there have been numerous types or variants of capitalism in existence around the world. However, the dominant forms of capitalism are as follows:

### **Anarcho Capitalism**

This is built around free market capitalism. Anarcho capitalists claim that free trade and trade agreements are facilitated, without any reliance or intervention from the state.

### **Mercantilism**

This is the earliest form of capitalism, developed by Adam Smith. Smith stated that Mercantilism is where economic production and trade is controlled by the state who embraces the main goal of exporting as many goods as possible, whilst importing few goods as possible.

### **Free Market Capitalism**

Free Market Capitalism entails privately owned production enterprises, limitation of state to only imposing property rights and the free price system. This system is where demand and supply are allowed to vary until their point of equilibrium is met, without any government intervention.

## **Social Market Economy**

This is a capitalist economy where government intervention is kept at a minimum in the formation of price but plays a crucial role in providing social welfare incentives.

## **State Capitalism**

This system can either refer to one of two definitions:

(1) In this economy there are mainly private enterprises, where the state intervenes to protect particular businesses.

(2) An economy that involves profit seeking enterprises that are state owned and operates in a capitalist manner.

More precisely, state capitalism exists when; the state becomes a major shareholder in private enterprises.[3]

## **Corporate Capitalism**

This refers to a mixed of free market dominated by corporations that are legally inclined to pursue profits.

## **Market Economy**

To some extent, capitalist economies are defined as mixed economies characterized by private ownership. However, according to the Collins English Dictionary, 10th Edition, mixed economy is an economy in which some industries are privately owned and others are publicly owned or nationalized.

## **Characteristics of Capitalism**

Capitalism, commonly known as a free enterprise economy, is regarded as an economic system distinguished by certain characteristics, whose development is condition by still other elements. The main characteristics of capitalism are as follows:

### **Private Ownership**

Private individuals are the owners of the means of production, which is, land, labour, capital, entrepreneurship (as opposed to state ownership and communist ownership). It is they who decide what to produce, in what quantities, how it is going to be produced, and the rewards of labour. It is demand and supply that determines the price of the finished good (s).

### **Decentralized Decision Making**

Within a capitalist economy, the process of decision making takes the structure of manipulative decentralization. Individuals, rather than the government make the decision through pursuing self interest. However, the government controls these decisions by manipulating its respective environment that is, affecting prices, taxes, subsidies etc.

### **Freedom of Choice**

Capitalism, sometimes referred to as a market economy, emphasizes on the freedom of the individual, both as a consumer and as a owner of the factors of production. Basically, an individual can work where he or she wants, while entrepreneurs are also free to set up enterprises of their own choice. Within a market economy, decisions or choices are mainly driven by material incentives.

## **Critique of Capitalism**

### **The General Benefits of Capitalism include:**

Economic growth by providing an open competitive market which provides individuals with far better opportunities of raising their own income;

Capitalism results in a decentralized economic system which is considered one of the greatest advantages of capitalism where individuals are exposed to a variety of options which can lead to competition hence leading to firms producing only the best; and

A capitalist economy is believed to encourage innovations in technology and industry.

### **Benefits of Capitalism according to Adam Smith**

When we hear the term capitalism, two renowned economists should come to mind and they are: Adam Smith and Karl Marx. These two economists have contradicting views of the term capitalism which has groomed and shaped many economies in the world either for or against capitalism.

Adam Smith (1723-1790), a Scottish economist and moral philosopher is considered to be one of the fore father's of capitalism and the world's first true economist. Smith championed the idea that laissez fair economics would benefit its practitioners while also promoting society's general welfare. He believes that individuals are usually best left on their own devices without the heavy hand of the government guiding their actions which is vital to the prosperity of a country because the demand brought about by free trade will result in the production of more goods. He believes that individuals who act in their own self-interest unintentionally promote the public's interest

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frequently more effectively than when they intentionally pursue it. By this he is saying that participants in the economy are motivated by self-interest and that the 'invisible hand' of the market place guides this self-interest into promoting general economic well-being.

Just as the market regulates both prices and quantities of goods according to the final mediator of public demand so it also regulates the income of those who cooperate to produce those goods. If profits of business are unduly large there will be a rush of other businessmen into that field until competition has lower surplus. If wages are out of line in one kind of work there will be a rush of men into the favored occupation until it pays no more than comparable jobs of that degree of skills and training. Conversely if profits or wages are too low in one trade area, there will be an exodus of capital and labor until supply is better adjusted to demand. In all of this Adam Smith has found in the mechanism of the market a self-regulating system of society's orderly provisionary.

Although the nature of the market has vastly changed since the eighteenth century, the laws of the market can still be discerning if we study its operations.

### **The General Drawbacks of Capitalism include:**

Capitalism makes an economy money oriented. Businesses look at the economy with a materialistic point of view. Profitability remains there only primary business goal. Business giants take over smaller companies.

Employment rights are compensated with the sole aim of higher productivity and some believe that because of fierce competition in capitalist economies



it can give rise to unfair competition. There are different views about capitalism; some believe in its strengths, while others complain about the unfair distribution of wealth it may lead to.

## **Drawbacks of capitalism according to Karl Marx**

The antithesis of capitalism is Marxian Economics, named after Karl Marx. He believes that capitalism brings about class segregation i. e. there are two classes the capitalist class and the working class. Under capitalism, economic personal property, such as commodities or the means of production may be withheld from others by its owners this is done so as to yield higher profit margins. Example; suppose the Demerara Harbour Bridge was privately owned, the owner of the bridge may refuse passage to all but those willing to pay an exorbitly high price. Anyone unwilling or unable to may not use the bridge.

Exploitation of the surplus value of labour is another drawback of capitalism according to Marx. At the most basic level, all healthy (able-bodied) people possess personal property or capital in the form of their labour. Workers enter the market place with the option of withholding their services from any employer unwilling to meet their price. But by selling their labour to other persons, workers enter into wage labour contracts. The workers profit from their labour and may use the subsequent earnings to buy necessities. The employer, however, also earn a profit from the workers labour. Example; A cement making company hires workers for packaging the cement and then sells the cement sacks for a price that exceeds the cost of wages and materials, thus providing a profit to the entrepreneur. Through this wage labour contract, however, a net portion of the workers surplus value

becomes the property of the entrepreneur (employer). This is basically saying that when an employer, employ's someone he does not give them their full contribution to the business and by this Marx argued that this system alienated workers from the surplus value of their labour. Marx was somewhat awed by the ability of capitalism to generate great personal wealth but he felt it was nonetheless a system based on social domination rather than rational exchange.

Capitalism Marx declared would generate its own destruction. Marx argued that the capitalist economies would weaken in systematic crises. These crises would cause social disturbance in which capital would be recognized and economies would prepare for subsequent cycles. Wealth would become more and more concentrated into the hand of even more privileged class. Marx felt that crises would become more serious overtime and eventually would inspire a revolution in which the labourers who were alienated from their profits would seize wealth from the higher classes and establish a society in which all property was communally owned and deprivation was eliminated or at least average.

## **Case Study**

It is accepted public knowledge that the United States of America is one of the largest Capitalist countries in the world. This country was selected to briefly analyze a few areas of how operating under a capitalist economic system would affect the economy and individuals.

Property rights play a major part in the motivation needed to conserve resources in the United States. Take for instance, the air around them. They

do not own the air around them hence acting in their own self interest, they freely pollute the air. However, those individuals that own a vehicle take special care in maintaining the air inside their vehicle, via air fresheners, air conditioning, etc. So how do we control the amount of pollution in the air? Simply impose a property right that states all fumes emitted from the vehicle must now be emitted inside of the owner's vehicle. It is without a doubt that vehicle owners will immediately start to drive a more resourceful vehicle, consume better fuels, etc, all of which would lead to further innovation and the reduction of emitted fumes. This example is highly illogical; nevertheless, it is useful in making the point that individuals conserve and maintain their property if threatened by a property right.

## **Exploitation of Labour**

As previously mentioned, private ownership entails the entrepreneur having control over the means of production. In the United States there are over thirty (30) million corporations or businesses that are profit seeking entities, which is most likely dominant in the capitalist system. In a capitalist economy, according to Marx's theory, simply the workers are taken advantage of by the wealthy. Recently in the United States, a major marine industry, Signal International was sued for importing about 500 Indians. Complaints were made against the company for horrible housing quarters, very low wages, and psychological abuse among others. This is a typical example of the wealthy taking full advantage of the working class.

## **Decentralized Decision Making**

As a capitalist economic system, the United States functions under manipulative decentralization. This is to simply say that any decisions that

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are to be made the government or the state play a part. These decisions are controlled by the government and it is they who manipulate the market or environment. However, it is the individuals who by choice and rational thinking, are the decision makers and set the outcome of the decision. Take for instance, if the government were to raise the income tax or the prices of goods and services, as a means of raising funds, as President Ronald Regan did in the 1980's. This automatically indicates that though the the government is acquiring funds, the individuals have no choose to reduce spending. This leads to consumers saving more and thereby providing the government with additional funds.

## **Freedom of Choice**

### **Promotes invention and encourages innovation.**

Individuals are granted the freedom of choice within the United States, as of such this encourages individuals both consumer and entrepreneur to invent or create mechanisms of solving problems that will make numerous tasks easier. Take for instance, Bill Gates, cofounder and CEO of Microsoft Corporation's products. In 1980, he developed operating systems for IBM's personal computers, which are called Windows. This is an operating program that features simple commands, striking graphics, etc. Hence, it is entrepreneurs such as Bill Gates that are one of the driving forces behind change in a free enterprise economy.

### **Promotes the freedom to assemble.**

Even though Smith was not a supporter of Trade Unions or labour unions, he held the dream that workers should be permitted to join together and speak up against the unfair and inhuman treatments that may be forced upon them

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by their employers. Within the United States there exists over 90 Trade Unions and organizations that represent numerous employees and ensure that their rights and comfortable working conditions are properly upheld. One of such organizations is The American Federation of Labour Congress of Industrial Organizations (AFL-CIO) of which encompasses fifty seven (57) unions and represents over 12. 2 million members nationwide.

### **Choice of work**

In Marx's era, individuals were free to choose their area or place of work. However, they were made to work in filthy, inhuman and improper working environments. They were paid low wages for working long hours and after specializing at one task for lengthy periods of time, workers became like robots. He later stated that workers were limited in job movement because their jobs were the only source of income for their family. In the United States of America there are some towns that portray this kind of action. According to the United States Department of Commerce, Bureau of Economic Analysis such towns are Kiryas Joel, New York; Allen, South Dakota; Tobin, California all of which have very low per capita income.

### **Conclusion**

From our readings and research we have discovered that capitalism existed centuries ago but in its early form namely, Feudalism and Mercantilism. It was these economic systems that led to the development of Capitalism today. Over time, many scholars, economists, theorists and other brilliant individuals have questioned the formalities of a Capitalist state.

An economic system, though driven by profit maximization, greed and self interest, transformed to one that allows for both classes, if not all, to have a say in the development and improvement of one's own country. Additionally, the case study has revealed that The United States of America is a country that demonstrates both the highlights and faults of Capitalism.