

James Fulcher

CAPITALISM

A Very Short Introduction

OXFORD
UNIVERSITY PRESS

VERY SHORT INTRODUCTIONS are for anyone wanting a stimulating and accessible way in to a new subject. They are written by experts, and have been published in more than 25 languages worldwide.

The series began in 1995, and now represents a wide variety of topics in history, philosophy, religion, science, and the humanities. Over the next few years it will grow to a library of around 200 volumes – a Very Short Introduction to everything from ancient Egypt and Indian philosophy to conceptual art and cosmology.

Very Short Introductions available now:

ANCIENT PHILOSOPHY

Julia Annas

THE ANGLO-SAXON AGE

John Blair

ANIMAL RIGHTS David DeGrazia

ARCHAEOLOGY Paul Bahn

ARCHITECTURE

Andrew Ballantyne

ARISTOTLE Jonathan Barnes

ART HISTORY Dana Arnold

ART THEORY Cynthia Freeland

THE HISTORY OF

ASTRONOMY Michael Hoskin

ATHEISM Julian Baggini

AUGUSTINE Henry Chadwick

BARTHES Jonathan Culler

THE BIBLE John Riches

BRITISH POLITICS

Anthony Wright

BUDDHA Michael Carrithers

BUDDHISM Damien Keown

CAPITALISM James Fulcher

THE CELTS Barry Cunliffe

CHOICE THEORY

Michael Allingham

CHRISTIAN ART Beth Williamson

CLASSICS Mary Beard and

John Henderson

CLAUSEWITZ Michael Howard

THE COLD WAR

Robert McMahon

CONTINENTAL PHILOSOPHY

Simon Critchley

COSMOLOGY Peter Coles

CRYPTOGRAPHY

Fred Piper and Sean Murphy

DADA AND SURREALISM

David Hopkins

DARWIN Jonathan Howard

DEMOCRACY Bernard Crick

DESCARTES Tom Sorell

DRUGS Leslie Iversen

THE EARTH Martin Redfern

EGYPTIAN MYTH

Geraldine Pinch

EIGHTEENTH-CENTURY

BRITAIN Paul Langford

THE ELEMENTS Philip Ball

EMOTION Dylan Evans

EMPIRE Stephen Howe

ENGELS Terrell Carver

ETHICS Simon Blackburn

THE EUROPEAN UNION

John Pinder

EVOLUTION

Brian and Deborah Charlesworth

FASCISM Kevin Passmore

THE FRENCH REVOLUTION

William Doyle

FREUD Anthony Storr

GALILEO Stillman Drake

GANDHI Bhikhu Parekh

GLOBALIZATION
 Manfred Steger
HEGEL Peter Singer
HEIDEGGER Michael Inwood
HINDUISM Kim Knott
HISTORY John H. Arnold
HOBBES Richard Tuck
HUME A. J. Ayer
IDEOLOGY Michael Freeden
INDIAN PHILOSOPHY
 Sue Hamilton
INTELLIGENCE Ian J. Deary
ISLAM Malise Ruthven
JUDAISM Norman Solomon
JUNG Anthony Stevens
KANT Roger Scruton
KIERKEGAARD Patrick Gardiner
THE KORAN Michael Cook
LINGUISTICS Peter Matthews
LITERARY THEORY
 Jonathan Culler
LOCKE John Dunn
LOGIC Graham Priest
MACHIAVELLI Quentin Skinner
MARX Peter Singer
MATHEMATICS Timothy Gowers
MEDIEVAL BRITAIN
 John Gillingham and
 Ralph A. Griffiths
MODERN IRELAND
 Senia Pašeta
MOLECULES Philip Ball
MUSIC Nicholas Cook
NIETZSCHE Michael Tanner
NINETEENTH-CENTURY
 BRITAIN Christopher Harvie and
 H. C. G. Matthew
NORTHERN IRELAND
 Marc Mulholland
PAUL E. P. Sanders
PHILOSOPHY Edward Craig
PHILOSOPHY OF SCIENCE
 Samir Okasha
PLATO Julia Annas
POLITICS Kenneth Minogue
POLITICAL PHILOSOPHY
 David Miller
POSTCOLONIALISM
 Robert Young
POSTMODERNISM
 Christopher Butler
POSTSTRUCTURALISM
 Catherine Belsey
PREHISTORY Chris Gosden
PRESOCRATIC PHILOSOPHY
 Catherine Osborne
PSYCHOLOGY Gillian Butler and
 Freda McManus
QUANTUM THEORY
 John Polkinghorne
ROMAN BRITAIN Peter Salway
ROUSSEAU Robert Wokler
RUSSELL A. C. Grayling
RUSSIAN LITERATURE
 Catriona Kelly
THE RUSSIAN REVOLUTION
 S. A. Smith
SCHIZOPHRENIA
 Chris Frith and Eve Johnstone
SCHOPENHAUER
 Christopher Janaway
SHAKESPEARE Germaine Greer
SOCIAL AND CULTURAL
 ANTHROPOLOGY
 John Monaghan and Peter Just
SOCIOLOGY Steve Bruce
SOCRATES C. C. W. Taylor
SPINOZA Roger Scruton
STUART BRITAIN John Morrill
TERRORISM Charles Townshend
THEOLOGY David F. Ford
THE TUDORS John Guy
TWENTIETH-CENTURY
 BRITAIN Kenneth O. Morgan
WITTGENSTEIN A. C. Grayling
WORLD MUSIC Philip Bohlman

Available soon:

AFRICAN HISTORY

John Parker and Richard Rathbone

ANCIENT EGYPT Ian Shaw

THE BRAIN Michael O'Shea

BUDDHIST ETHICS

Damien Keown

CHAOS Leonard Smith

CHRISTIANITY Linda Woodhead

CITIZENSHIP Richard Bellamy

CLASSICAL ARCHITECTURE

Robert Tavernor

CLONING Arlene Judith Klotzko

CONTEMPORARY ART

Julian Stallabrass

THE CRUSADES

Christopher Tyerman

DERRIDA Simon Glendinning

DESIGN John Heskett

DINOSAURS David Norman

DREAMING J. Allan Hobson

ECONOMICS Partha Dasgupta

THE END OF THE WORLD

Bill McGuire

EXISTENTIALISM Thomas Flynn

THE FIRST WORLD WAR

Michael Howard

FREE WILL Thomas Pink

FUNDAMENTALISM

Malise Ruthven

HABERMAS Gordon Finlayson

HIEROGLYPHS

Penelope Wilson

HIROSHIMA B. R. Tomlinson

HUMAN EVOLUTION

Bernard Wood

INTERNATIONAL RELATIONS

Paul Wilkinson

JAZZ Brian Morton

MANDELA Tom Lodge

MEDICAL ETHICS

Tony Hope

THE MIND Martin Davies

MYTH Robert Segal

NATIONALISM Steven Grosby

PERCEPTION Richard Gregory

PHILOSOPHY OF RELIGION

Jack Copeland and Diane Proudfoot

PHOTOGRAPHY

Steve Edwards

THE RAJ Denis Judd

THE RENAISSANCE

Jerry Brotton

RENAISSANCE ART

Geraldine Johnson

SARTRE Christina Howells

THE SPANISH CIVIL WAR

Helen Graham

TRAGEDY Adrian Poole

THE TWENTIETH CENTURY

Martin Conway

For more information visit our web site

www.oup.co.uk/vsi

Capitalism: A Very Short Introduction

OXFORD

UNIVERSITY PRESS

Great Clarendon Street, Oxford OX2 6DP

Oxford University Press is a department of the University of Oxford.
It furthers the University's objective of excellence in research, scholarship,
and education by publishing worldwide in

Oxford New York

Auckland Bangkok Buenos Aires Cape Town Chennai
Dar es Salaam Delhi Hong Kong Istanbul Karachi Kolkata
Kuala Lumpur Madrid Melbourne Mexico City Mumbai Nairobi
São Paulo Shanghai Taipei Tokyo Toronto

Oxford is a registered trade mark of Oxford University Press
in the UK and in certain other countries

Published in the United States
by Oxford University Press Inc., New York

© James Fulcher 2004

The moral rights of the author have been asserted
Database right Oxford University Press (maker)

First published as a Very Short Introduction 2004

All rights reserved. No part of this publication may be reproduced,
stored in a retrieval system, or transmitted, in any form or by any means,
without the prior permission in writing of Oxford University Press,
or as expressly permitted by law, or under terms agreed with the appropriate
reprographics rights organizations. Enquiries concerning reproduction
outside the scope of the above should be sent to the Rights Department,
Oxford University Press, at the address above

You must not circulate this book in any other binding or cover
and you must impose this same condition on any acquirer

British Library Cataloguing in Publication Data
Data available

Library of Congress Cataloging in Publication Data
Data available

ISBN 13: 978-0-19-280218-7

ISBN 10: 0-19-280218-6

5 7 9 10 8 6 4

Typeset by RefineCatch Ltd, Bungay, Suffolk
Printed in Great Britain by
Ashford Colour Press Ltd, Gosport, Hampshire

Acknowledgment

I would like to acknowledge the support given to me by the University of Leicester in granting me the study leave that enabled me to write this book.

Contents

	List of illustrations	xi
1	What is capitalism?	1
2	Where did capitalism come from?	19
3	How did we get here?	38
4	Is capitalism everywhere the same?	58
5	Has capitalism gone global?	82
6	Crisis? What crisis?	104
	References	129
	Further reading	132
	Index	135

List of illustrations

- | | | | | | |
|----|--|----|----|---|----|
| 1 | East Indiaman, 1829 | 3 | 7 | Miners' strike, 1984 | 53 |
| | By permission of the British Library (shelfmark 8809 dd 6) | | | © Alain Nogues/Corbis Sygma | |
| 2 | Cotton mill, 1800s | 6 | 8 | New Deal: 'Ring-around-a-Roosevelt' cartoon by Clifford Kennedy Berryman, 26 May 1938 | 67 |
| | © TopFoto.co.uk/Fotomas | | | © Corbis | |
| 3a | Nick Leeson, 1999 | 11 | 9 | Carlos Ghosn, Nissan CEO, announces closure of factories, October 1999 | 79 |
| | © TopFoto.co.uk/PA | | | © Toru Yamanaka/AFP Photo/Getty Images | |
| 3b | 7th Baron Ashburton, 1999 | 11 | 10 | <i>Maquiladora</i> workers, Mexico, 1993 | 85 |
| | © TopFoto.co.uk/UPP Photo | | | © TopFoto.co.uk/Image Works | |
| 4 | Enclosure of the land: estate of David Wells, c.1750 | 24 | 11 | Nike workers, Vietnam | 87 |
| | © TopFoto.co.uk | | | © Steve Raymer/Corbis | |
| 5 | Amsterdam stock exchange, built 1608–13 | 28 | 12 | Large-scale banana production by Dole, Ecuador | 92 |
| | © TopFoto.co.uk/Fotomas | | | © Owen Franken/Corbis | |
| 6 | Cyclops steelworks, Sheffield, 1853 | 42 | | | |
| | © Corbis | | | | |

- | | | | | | |
|----|--|-----|----|---|-----|
| 13 | Wall Street crash,
1929
© TopFoto.co.uk/AP | 110 | 15 | <i>Lastminute.com</i> ,
2000
© TopFoto.co.uk/PA | 120 |
| 14 | Auction of human
labour, California,
1932
© Bettmann/Corbis | 111 | | | |

The publisher and the author apologize for any errors or omissions in the above list. If contacted they will be pleased to rectify these at the earliest opportunity.

Chapter 1

What is capitalism?

Merchant capitalism

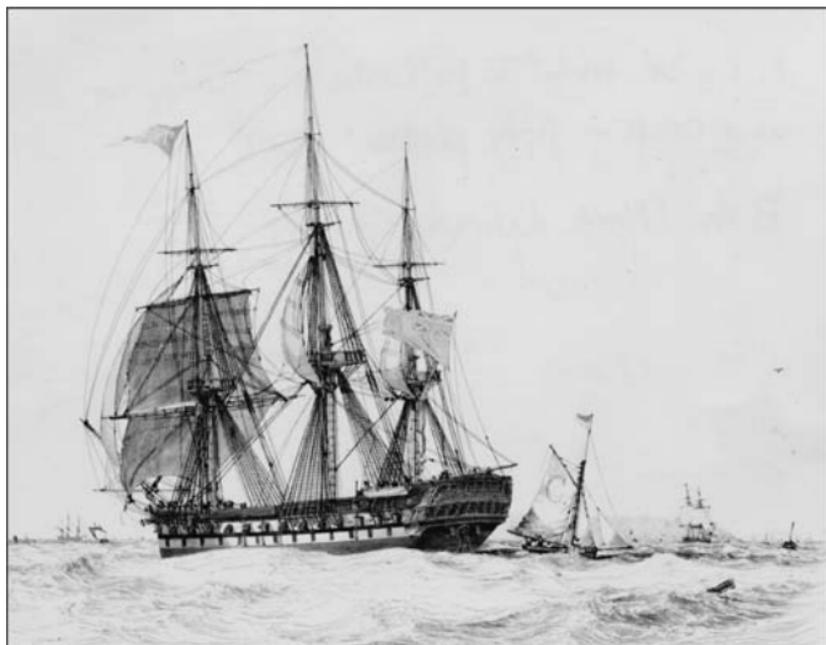
In April 1601 the English East India Company sent its first expedition to the East Indies. After some 18 months its four ships, *Ascension*, *Dragon*, *Hector*, and *Susan*, had returned from Sumatra and Java with a cargo mainly of pepper. The success of this venture led to a second expedition by the same ships, which left London in March 1604. On the return journey *Hector* and *Susan* set off first, but *Susan* was lost at sea and *Hector* was rescued by *Ascension* and *Dragon*, which found her drifting off South Africa with most of her crew dead. *Ascension*, *Dragon*, and *Hector* made it back to England in May 1606 with a cargo of pepper, cloves, and nutmegs. The shareholders in these two voyages made a profit of 95% on their investment.

Despite the similar success of the third expedition in 1607, the fourth one in 1608, consisting of the ships *Ascension* and *Union*, was a complete disaster. The *Ascension* reached the west coast of India but was there wrecked by its 'proud and headstrong master', who drove his ship aground after ignoring local warnings about shoaling waters. The *Union* called in at a Madagascan port, where the crew was ambushed and the captain killed, but nonetheless the ship made it to Sumatra and loaded a cargo. On her way back, the *Union* was wrecked off the coast of Brittany. The investors in this expedition lost all their capital.

Capitalism is essentially the investment of money in the expectation of making a profit, and huge profits could be made at some considerable risk by long-distance trading ventures of this kind. Profit was quite simply the result of scarcity and distance. It was made from the huge difference between the price paid for, say, pepper in the spice islands and the price it fetched in Europe, a difference that dwarfed the costs of the venture. What mattered was whether the cargo made it back to Europe, though market conditions were also very important, for the sudden return of a large fleet could depress prices. Markets could also become saturated if the high profitability of the trade led too many to enter it. A glut of pepper eventually forced the East India Company to diversify into other spices and other products, such as indigo.

A large amount of capital was needed for this trade. An *East Indianman*, as the ships engaged in this trade were called, had to be built, fitted out, armed with cannon against Dutch and Portuguese rivals, and repaired, if and when it returned. The Company's shipyards at Blackwall and Deptford, which were major employers of local labour, required financing. Capital was also needed to stock outgoing vessels with bullion and goods to pay for the spices, with munitions, and with food and drink for the large crews they carried. On the Company's third expedition, *Dragon* had a crew of 150, *Hector* 100, and *Consent* 30 – in all 280 mouths to feed, at least initially. One reason for the large crews was to make sure there were enough sailors to get the ships back after the hazards of the expedition had taken their toll.

The East India Company's capital was obtained largely but not entirely from the rich London merchants who controlled and administered it. Aristocrats and their hangers-on were another source, and one welcomed by the Company because of their influence at Court. The Company's privileges depended on royal favour. Foreign money was also involved, mainly from Dutch



1. East Indiaman, 1829

merchants excluded by the rival Dutch East Indies Company. They were also a useful source of intelligence about that company's activities.

The first 12 voyages were each financed separately, with capital committed to one voyage only and the profits of the voyage distributed among its shareholders, according to traditional merchant practices. This was, however, a risky way of financing long-distance trade, for it exposed capital to a long period of uncertainty in far-away and unknown places. Risk could be spread by sending out several ships on each expedition, so that not all the eggs were in one basket, but whole expeditions could, nonetheless, be lost, as in 1608. The company shifted to a method of finance that spread risks over a number of voyages and then became a fully fledged joint-stock company, with, after 1657, continuous investment unrelated to specific voyages. In 1688 trading in its stocks began on the London Stock Exchange.

Risk was also reduced through monopolistic practices. Like its counterparts abroad, the English East India Company was closely intertwined with the state, which granted it a monopoly for the import of oriental goods and gave it the right to export bullion to pay for them. In exchange the state, always short of money, gained revenue from customs duties on the large and valuable imports made by the company. There was certainly competition but it was international competition, in the Indies between the English, the Dutch, and the Portuguese, and as far as possible eliminated within each country. Outsiders were always trying to break into the trade, and one of the key privileges bestowed on the East India Company by the state was the right to take action against 'interlopers'.

Capitalism

Markets were manipulated by buying up stocks and holding back sales. In the 17th century Amsterdam merchants were particularly skilled in these practices and busily established monopolies not only in spices but in Swedish copper, whale products, Italian silks, sugar, perfume ingredients, and saltpetre (an ingredient of gunpowder). Large warehouses were crucial to this and Fernand Braudel comments that the warehouses of the Dutch merchants were bigger and more expensive than large ships. They could hold sufficient grain to feed the entire country for 10 to 12 years. This was not just a matter of holding goods back to force up prices, for large stocks also enabled the Dutch to destroy foreign competitors by suddenly flooding the whole European market with goods.

This was certainly capitalism, for long-distance trade required a heavy investment of capital in the expectation of large profits, but a free market capitalism it clearly was not. The secret of making high profits was to secure monopolies by one means or another, exclude competitors, and control markets in every way possible. Since profit was made from trading in scarce products rather than rationalizing production, the impact of merchant capitalism on society was limited. Most of the European population could get on with their

daily work without being affected by the activities of these owners of capital.

Capitalist production

In the 1780s two Scots, James M'Connel and John Kennedy, travelled south to become apprentices in the Lancashire cotton industry. After gaining experience and making some money in the manufacture of cotton machinery, they set up their own firm in 1795 with an initial capital of £1,770. They soon made good profits from cotton spinning, achieving a return on capital of over 30% in 1799 and 1800. They accumulated capital rapidly and by 1800 their capital had risen to £22,000, by 1810 to £88,000. By 1820 the company had three mills and had established itself as the leading spinner of fine cotton in Manchester, the global metropolis of cotton spinning.

This soon became a very competitive industry, however, and profits could not be sustained at the high level of the early 1800s. This was, indeed, largely because high profits had resulted in expansion and attracted new entrants. There were already 344 cotton mills by 1819 but by 1839 there were 1,815. Technical advances enabled huge increases in productivity during the 1830s, and competition drove companies to invest heavily in the new machinery. The bigger mills built at this time contained 40,000 spindles, as compared with the 4,500 or so of their predecessors. The costs of this heavy investment in buildings and machinery, together with the downward pressure of increased productive capacity on yarn prices, depressed the industry's profitability to low levels in the 1830s.

Profit depended ultimately on the workers who turned raw cotton into yarn. M'Connel and Kennedy's labour force grew from 312 in 1802 to around 1,500 by the 1830s. Much of this was cheap child labour and at times nearly half those employed were under the age of 16. In 1819 there were 100 children under the age of 10, some as young as 7, who worked from 6.00 in the morning until 7.30 at night.