

Living in our Globalized World: Notes 6

Constructing the capitalist

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- I won't go over all the history, but you should read it and remember the gist of it
 - Robbins is well written, clear
 - lots more details in Eric Wolf, *Europe and the People Without History*
 - shocking to Americans
 - standard high-school economic history to Brits
- A longer view of the history of the capitalist
 - By 4000 BCE in Mesopotamia: Long-distance trade in semi-precious stones like lapis, and obsidian for cutting tools, was already well established
 - goods came from as far away as Anatolia (modern Turkey) and modern Afghanistan
 - there must have been traders who concentrated capital, bought goods to trade and supplies for a long trip, traveled to remote places, bartered, and brought the goods back
 - presumably for a profit
 - By 3400 BCE or shortly after in Sumer: an accounting system and ways of documenting contracts, shipped goods, etc.
 - By 2400 BCE in Sumer: a queen was buried with jewelry made in India
 - and written records show serious maritime trade between Sumer and India
 - such as an Indian ship docking at the head of the Persian Gulf with a shipment of 6 ½ tons of copper
 - 336 BCE – 323 BCE: Alexander (the Great) of Macedon conquered an empire from Greece to Pakistan, plus Egypt
 - Alexander melted the gold hoarded by the conquered kings of Persia and minted coins, spending it furiously
 - 323 BCE - 30 BCE: Hellenistic period: From the death of Alexander through the rise of Rome
 - Alexander's empire quickly broke into three large pieces
 - (called the "Hellenistic empires": Antigonid, Seleucid, and Ptolemaic, but you don't need to remember that for this course)
 - but they mostly kept the peace and encouraged trade
 - trade flourished and set many of the patterns that held into the 19th century – already much like what Robbins described for 1400 CE
 - commodities that were traded:
 - food: grain, wine, spices, honey, olive oil
 - materials: timber, ivory, copper, bronze, iron, precious stones
 - manufactured goods: glassware, metalwork, jewelry
 - textiles: linen, cotton, wool, and silk
 - slaves
 - most countries encouraged trade by building ports and using military force to maintain safe transit
 - every country sought to tax traders as they passed by or docked
 - in the 200s BCE, piracy became a problem

- Rome sent fleets to fight pirates in the Eastern Mediterranean
- in the 100s BCE, Egypt (the Ptolomaic empire) sent fleets to fight pirates at the mouth of the Red Sea and in the Indian Ocean, right where they are a problem today
- At 50 CE in Rome: Hellenistic trade practices continued
 - like modern globalization, but:
 - affected relatively few people, rather than most of the world’s population
 - wealthy consumers
 - consuming luxury goods
 - a limited number of traders and producers
 - involved in the trade itself and production specifically for trade
 - and ordinary urban residents of some large cities like Rome,
 - which depended on grain and textiles imported from distant regions
 - because they had more people than the farmland of even a large surrounding region could support
 - most people in the Roman Empire and beyond still consumed mostly local products, and most households were largely self-sufficient
 - example of Roman “global” trade: 50 CE, near the peak of the Roman Empire
 - Sheer silk dresses from China were very popular in Rome
 - Shipped to Rome by Roman traders
 - who bought them in the Levant (modern Israel, Lebanon, Syria)
 - from Central Asian traders
 - who took an overland “silk road” from China
 - Some in the Roman Senate thought them immoral
 - because they were too sheer and revealing
 - they tried to ban them, but failed
 - another objection, also voiced in the Senate: the injustice of tremendous labor by poor women in a distant land in order to meet the faddish fancy of Roman girls
 - Pliny the Elder, *The Natural History* VI, 20:
 - “After steeping it in water, they comb off a while down... and then to the females... they give the twofold task of unraveling their textures [fibers], and of weaving the threads afresh. So manifold is the labour, and so distant are the regions which are thus ransacked to supply a dress through which our ladies may in public display their charms.”
 - Seneca the Younger c. 3 BCE–65 CE, *Declamations* Vol. I:
 - “Wretched flocks of maids labor so that the adulteress may be visible through her thin dress.”
 - does this sound familiar – like objections people make today to globalization?
 - at about the same time, Roman traders left coins at a port in the Mekong delta, found in archaeological excavations
 - later known to have used a route from the northern end of the Red Sea (now the Suez canal) to Vietnam, where traders brought the Chinese silks to sell
 - by 166 AD, a Chinese historical document claims that the Romans had established an embassy in China
 - although this might have actually been private traders

- so the demand for silk and the quest for profits evidently won out over moral and ethical objections
- 200 CE - 476 CE: Western Roman Empire collapsed
 - trade between Europe and Asia declined to almost nothing
- 500 CE – 1000 CE: Early Middle Ages
 - maritime trade remained vigorous between the Arabic and Middle Eastern world and Asia
 - but still affected only a small fraction of the world's population
 - mostly urban residents of some large cities, and the wealthy
- 826 CE
 - Early Middle Ages
 - Islam had spread from Spain to Pakistan
 - Arabic was the language of trade, education, and political power
 - Chinese pottery made in Tang Dynasty Changsha is found in archaeological excavations in the Middle East in centers like Samarra
 - some of it came overland, carried by Silk Route traders, much as silks and other precious goods had in Roman times
 - in 826, an Arab or Indian dhow (a type of ship), sank off the Indonesian island of Belitung
 - the ship was loaded with Changsha pottery, especially stacks of bowls
 - based on its location and other historical records, its route would have been between the head of the Persian gulf and the Chinese port of Canton
 - the pottery was mass-produced, clearly for sale
 - packed with bean sprouts as padding
 - bowls stacked in straw cylindrical shipping containers
 - others neatly stacked inside larger ceramic jars
 - it is not super-fine, expensive, exotic ware
 - it would have been for well-off people, but not necessarily aristocrats or royalty
 - some bowls have Buddhist motifs
 - others are decorated with Arabic phrases
 - “I am the servant of Allah”
 - “There is no other God but Allah”
 - this is clearly production for a foreign market!
 - Islam would not catch on in Indonesia for another 400 years, after 1200 AD
 - and it never became important in central China
 - yet they were making pottery decorated with phrases written in a foreign language, referring to a foreign religion
 - *Do the stacks of bowls like these remind you of anything you might see in San Francisco's Chinatown today?*
 - *Does mass production of consumer goods specifically for foreign tastes suggest globalization in 826 AD?*
 - While the main cargo was made in China for Arab consumption, many of the small items found in the wreck do not seem to be Chinese OR Arab...
 - the small finds look more southeast Asian (Indonesian, Vietnamese, etc.)

- so maybe the crew of the Arab ship loaded with Chinese commodities was from Indonesia or Vietnam
- *would globe-crossing trade using international crews suggest globalization in 826 AD?*
- while this wreck is unique, the trade connections are not
 - many land and sea routes have been documented
- 1276: Mongols conquered China
 - they came from central Asia
 - were a powerful, mobile military force
 - enforced order and safe transit in central Asia
 - this allowed trade along the overland silk routes that had been dangerous for centuries
 - reviving trade patterns from Roman times
- late 1200s and 1300s CE: Late Middle Ages in Europe
 - trade between Europe and Asia finally picked up again
 - Marco Polo was one of the many Europeans who journeyed East to trade
 - after a long trip and lengthy stays at various places, his ships were ambushed just before reaching Venice by forces of the rival trading city, Genoa
 - he lost everything
 - he was thrown in jail, where his cellmate was a writer who recorded his tall tales and published them with great success
 - this overland trade also probably facilitated the spread of bubonic plague from Central Asia to Europe
 - causing chaos and depopulation in Europe
 - problems of globalization, anyone?
- 1386: Han (indigenous) Chinese took China back from the Mongols
 - establishing the Ming dynasty
 - Ming rulers initially also promoted trade with the west
 - Ming rulers built and sent out a military and trading fleet on seven expeditions over about 30 years
 - with hundreds of the biggest ships on Earth at the time
 - intended to establish control over maritime trade in the Indian Ocean and Southeast Asia
 - reached India, East Africa, into the Red Sea and the mouth of the Persian Gulf
 - but in a few decades, abandoned interest in foreign trade
 - and let the navy rot at anchor
- Late Middle Ages: maritime trade increased
 - Arab, Indian, Middle Eastern sea traders – *dar al-Islam* (Islamic world) dominated Indian Ocean and some Southeast Asian trade
 - Italian and other European “Merchant Adventurers”
 - Spain, Portugal, northern Europe, England were pretty much at the end of the chain, less prosperous
- most people
 - owned their family land and/or had access to community land,
 - were self-sufficient, producing their own food and most of the goods they needed
 - bought just a few manufactured necessities (like metal pots and tools) in a lifetime

- after 1400: maritime trade and state-granted monopolies expanded
 - Ming China could not keep the overland silk routes through Central Asia safe
 - and shifted to an intentionally isolationist policy
 - abandoned the greatest navy the world had ever seen to rot in harbor
 - Portuguese ships improved, Vasco de Gama rounded Horn of Africa
 - trade routes to Asia could now go entirely by sea: much faster, cheaper, and safer (but still risky)
 - cheapest route to and from Asia was now south around Africa
 - access to Europe, North Africa (part of the Dar al-Islam), and the Middle East was now through the straight of Gibraltar
 - this put Portugal, Spain, England near the middle of the trade system, rather than the end
- 1492: Americas were discovered
 - waves of plagues of Old World diseases decimated the New World
 - making the few remaining people seem disorganized and powerless
 - and giving the impression that North America and much of South America was empty and free for Europeans to claim
 - their position at the western edge of Europe gave Portugal, Spain, and England especially good access to a whole new source of materials to trade
 - and a growing market for manufactured goods and slaves
- 1519-1521: Hernán Cortés (of Spain) conquered the Aztecs of Mexico
- 1527-1533: Francisco Pizarro (of Spain) captured Cuzco, the capital of the Inka empire
 - Spanish first looted vast amounts of gold and silver
 - then mined even more, especially silver, using indigenous people as essentially slave labor
 - so much silver flowed into Europe that by 1750 the value of silver had dropped to 20% of what it was in 1500
 - giving Spain lots of money with which to buy products from Asia and the rest of the world
 - some have argued that this allowed Spain to consume a lot without developing its own production
 - sowing the seeds for its loss of power later
 - does this sound a little like any other country you know?
- 1600s and 1700s: **mercantilism**
 - European states promoted trade and industry in order to keep silver and gold from leaving the country to buy imports
 - to assure a net inflow of money (gold and silver)
 - method: import cheap raw materials and export expensive manufactured goods
 - banned cheap imports
 - since buying them would send money out of the country in exchange for the goods
 - used state force, or authorized private force, to take control of raw materials
 - used state force, or authorized private force, to simply loot American and Asian states
 - promoted a large and low-paid labor force to do the manufacturing
 - the profits were not in manufacturing, but rather in buying and reselling in controlled markets, like monopolies

- organization of production was not much changed from before
- much of this was executed by granting incorporation, legal monopolies, and the right to use force to mercantile companies
- **joint stock companies**: companies funded by selling shares
 - shareholders get a percentage of the company's profits, based on the percentage of the shares they own
 - they are liable for the company's losses, to the same percentage
 - unless the government grants the company the right to incorporate, as discussed below
 - different from a partnership in that
 - partners make a personal arrangement with each other as individuals
 - adding or removing partners is difficult
 - shareholders buy shares impersonally, like any other commodity
 - shareholders can sell their shares to others
 - so there can be a large number of shareholders
 - advantageous for merchant ventures because it reduces risk
 - a large number of shareholders pooling their money can support many voyages
 - a few ships that sink or lose their cargo are hopefully outweighed by the successful voyages
 - in contrast to an individual or partnership venture, which has less money, so has to bet it all on one or a few voyages
- **incorporation** (forming a **corporation**):
 - the company is legally recognized as a "person", separate from the shareholders themselves
 - incorporation creates **limited liability**:
 - shareholders can lose no more than their investment
 - if the company owes more money than it has, the shares may be worthless
 - but the *company* owes the remaining money, not the shareholders
 - incorporation required a special act by a government
 - which governments typically did very rarely
 - in order to create just one or a few companies to which they could grant extraordinary privileges
 - monopoly rights to trade a given good or in a given region
 - all competitors were declared illegal
 - right to use force to advance their commercial goals
 - such as legally raising an army to take over another country!
- early, important examples of incorporated joint stock companies:
 - Dutch East India company
 - British East India company
 - and numerous others that were smaller
- why did governments grant incorporation to a few joint stock companies?
 - merchants gained
 - access to lots of capital, since liability was limited

- the legal right to monopolies (to have no competition)
- the ability to use military force to destroy “illegal” competitors, including those from other countries
- the ability to secure materials by military force
- the ability to use force to control workers
- governments gained from
 - customs duties on imports
 - taxes paid by the merchants, producers, and investors
- result: incorporated joint stock companies could
 - undertake ventures at a larger scale than ever before
 - because limited liability and the ability to buy and sell shares encouraged large numbers of stockholders to pool their wealth
 - undertake ventures that were in themselves far riskier than anyone would have done before
 - because the actual risk was reduced by
 - being averaged in with many other ventures due to the companies’ huge size
 - the limited liability of stockholders
 - government guarantees of monopolies
 - companies’ ability to use force
 - so trade increased to gigantic scale
 - money poured into western European mercantile trading countries
- Example: Dutch East India company
 - 1602-1800
 - a private business, granted total monopoly on all Dutch trade in the East Indies by the Netherlands' government (Dutch = Holland = Netherlands)
 - had their own flag, warships, laws
 - at its peak in 1669, had 150 merchant ships, 40 warships, and 10,000 soldiers
 - run by the “Gentlemen Seventeen”
 - incredibly profitable for investors
 - typically returned 25% to 30% annually
 - an investment would double about every three years!
 - increase by 10 times in about 10 years!
 - never paid less than 12% annual dividend, as high as 63%
 - many of the Dutch colonies were Portuguese settlements that they took by military force
 - controlled all the trade in numerous islands and countries
 - profited most from exporting cloves, nutmeg, mace
 - ensured their monopoly by raiding other islands and destroying spice trees
 - *does the scale make this globalization?*
 - *what about the mixing of the concepts of private enterprise and government, legal, and military power?*
- British East India company
 - 1600-1858
 - also a government monopoly, also quasi-governmental with warships, armies, etc.

- bitter rival of Dutch East India Co., eventually dominated
- started with colonies in India, ended up ruling most of the subcontinent
 - cotton textiles and pepper were major trade items
- thrown out by Indian revolt in 1858, the company dissolved
 - at which point it had 24,000 soldiers
 - the British government assumed all the failed company's debts
- Example of how these companies operated: Opium wars
 - opium: resin from opium poppy seed pods, contains a variety of narcotic chemicals
 - typically smoked, also eaten
 - today, usually refined into morphine or heroin
 - highly addictive, recognized as a public blight in China
 - Dutch and British began buying opium from Indian producers around 1560
 - By 1760, British East India Company had conquered much of India, had a lock on opium production
 - Encouraged production
 - not only to get the opium, but also because the company taxed opium land at 50% of the value of the harvest!
 - Largest market was in China
 - But the Chinese government prohibited opium consumption and imports (starting in 1729)
 - Chinese produced tea, which was now very valuable in Europe
 - But all China wanted from Europe was silver
 - so silver was flowing out of England and into China, exactly the opposite of British mercantile principles
 - China was getting rich in silver, and the Brits were just drinking up the tea and being left with nothing
 - In order to get tea without losing silver, British EIC
 - bought tea on credit in China
 - then sold opium in a market in Calcutta to the creditors
 - who would smuggle it into China and sell it to pay the money owed on the tea
 - They basically exchanged the opium for tea through the smugglers
 - By 1820s, 900 tons (1.8 million kilos) a year of opium was smuggled into China
 - British EIC wanted direct access to Chinese opium market, to cut out the smuggler middlemen
 - 1839: Chinese confiscated a year's supply of EIC opium (1,400 tons), and destroyed it
 - British responded by sending the British Indian Army and warships
 - Took coastal ports, sailed up Yangtze river, took Chinese tax ships moored in the river
 - 1843: Chinese signed treaty of Nanjing
 - handing over Hong Kong to the British
 - granting free access to five major ports and favorable tariffs to the EIC
 - paying a huge amount of silver to compensate for the destroyed opium
 - did not legalize opium trade, but made Chinese laws against it impossible to enforce
 - results:

- reversed the flow of silver (money)
 - Europe had been sending lots of money to China for tea and other goods
 - now England drained silver out of China in exchange for Indian opium
- all this money in England had to be invested in something in order to make more money
 - more, bigger, faster ships
 - manufactured goods purchased for resale abroad
 - military adventures to expand colonial holdings
 - both to get raw materials
 - and to secure cheap access to more markets to sell manufactured goods
 - and especially: factories and productive machines
- England's political and industrial expansion in the 1800s was significantly financed by its illegal opium trade
- the money financed huge, mechanized textile production
 - much of which was sold in India and China
 - formerly textile producers, but by less mechanized methods
 - textiles were over 50% of British exports to China and India by 1873
- this was a major step in the conversion of a mercantile (trading) economy into a true capitalist (production) economy
- but there was a minor downside
 - by 1900, 10% of the Chinese population was addicted to opium!
 - another source says 27% of adult males!
 - *Analogy: what if Colombia invaded the US to force us to accept shipments of cocaine?*
- example of effects in the New World: Cherokee
 - Virginia company traders advanced guns and goods
 - for later payment in deer skins, slaves, and medicinal herbs
 - took men away from traditional tasks, changing gender roles
 - replaced traditional craft production with purchased goods, making people dependent on trade
 - thus dependent on producing whatever the traders wanted
- 1800s: rise of the true capitalist
- prior to the 1800s, significant wealth was made by
 - plundering by force
 - Spanish government in Americas
 - Portuguese, Dutch, British companies in East Indies
 - mercantile trade: buying and reselling
 - especially with favorable terms, like monopolies, supported by force
 - there was little investment in production itself
 - so to many economists, the wealthy were not really capitalists
- capital flooded into Europe due to all this plundering and trade
 - capital must be invested to make more money
 - there was no way to invest a lot of capital in cottage industry

- or even in the putting-out system
- there was not enough capacity to just buy ever more materials and tools and pump them in for a profit
- somehow, people with money would have to find another way to make more money with it
- first solution: use capital to build factories
 - this took a lot of capital
 - and provided a profit by producing even more product
- later solution: invest in increasing mechanization
 - to increase output
 - to take advantage of available capital to make more profit
- Especially in England: why there?
 - debated; suggested reasons on Robbins pg. 84-85
- result: the appearance of true capitalists
 - own the means of production
 - buy materials and labor
 - sell the product for a profit
 - this profit is the “surplus value of labor” that the capitalist “expropriates” for himself,
 - rather than paying the workers the full amount that their labor has added to the value of the product
- Example of the shift from mercantilists to capitalists: British global cotton trade in the early Industrial Revolution
 - 1800-1860
 - Cotton produced in Egypt, Uganda, India, and US South
 - shipped raw to factories in Lancashire (England) and Bombay
 - shipped back to rest of world as cloth
 - industrialized production of cotton cloth destroyed indigenous Indian cotton cloth industry
- the shift from mercantilism to capitalism requires a large laboring class
 - but people will not sell their labor if they are self-sufficient
 - so capitalism can only grow if lots of people are alienated from land and means of production
 - we saw last time how enclosure laws and other processes did exactly that
- rise of capitalism (investment of mercantile capital to acquire more and better means of production) led to increasing production
 - which required both
 - more raw materials as inputs
 - and larger markets to sell to
- these needs encouraged increased **imperialism**
 - **imperialism**: a nation extending its control over foreign regions
 - imperialism already had a long history
 - capitalism just created still more reasons to expand it
 - the imperialist nation can acquire materials (and labor) by
 - simply appropriating them, as with lumber or mines

- setting up buying systems
- setting up plantations or factories
- the imperialist nation can maintain or expand markets by
 - excluding competitors
 - prohibiting or destroying production for local consumption
 - as in the destruction of Indian textile industry
- the imperialist nation can alienate people from land and means of production
 - creating both consumers and laborers
- But a capitalist economy is less stable than a mercantilist one
 - mercantile traders can count on monopolies and access to force that largely guarantee a profit
 - government can pass laws that ban local production, ban or restrict competing imports, etc.
 - but capitalists invest a lot to produce a lot
 - with no outside guarantee that people have to buy it
 - capitalists looking for ways to maximize the growth of lots of money are prone to **speculation**
 - buying shares or commodities in hope that the price will rise
 - the capital does not actually produce anything
 - it depends on other speculators wanting the share or commodity even more in the future
 - prices tend to rise until speculators get spooked
 - then they crash, and many people lose a lot of money
 - the limited liability of holding shares reduces the apparent risk of risky undertakings
 - which is good, in that some risky ventures pay off
 - but bad, in that it facilitates “the madness of crowds”
 - many investors taking the same, misjudged risks
 - investing in an industry that may crash
- Depression of 1873
 - the “Long Depression”
 - called the “Great Depression” until the Great Depression of 1929
 - lasted until 1879 in US, with frequent recessions to 1901
 - global
 - began with collapse of speculative stock market bubbles in Germany, Austria, and the US
 - due to wild over-investment in railroads, factories, ships, real estate
 - too much capital chasing too few real opportunities, bidding up share prices
 - people with capital kept investing, because they had to put their money somewhere
 - making it look like everyone thought that every railroad or factory was sure to make a lot of money
 - prices went up and up...
 - and more and more dubious businesses were founded, because investors needed new ventures to put money into
 - way more railroads were built all around the world than could ever make a profit
 - because the earlier ones had done so well

- also speculation in gold and silver, with large investors trying to manipulate the market price
- eventually, people began to think that railroad shares, real estate values, etc. were not really worth as much as their current prices
 - as more investors began to sell and fewer to buy, prices dropped
 - soon it was a scramble to sell before the prices dropped even further
 - causing them to drop faster and faster
 - the bubble popped
 - investors lost fortunes, banks collapsed, credit became hard to get for legitimate businesses...
 - without the constant influx of capital, railroad companies went bankrupt, leaving their new rail systems behind
 - much like the current recession
 - largely caused by speculation in real estate and complex financial contracts
- yet investors still had to put their money somewhere
- the solution: continued and expanded imperialism
 - open new markets to allow for continued growth opportunities for capital
 - by bringing foreign populations into the cash economy
 - by converting them from subsistence farmers to wage laborers and consumers
 - by settling growing European populations in new regions, where they would have to consume European goods
 - and to create new opportunities for profitable investment in extracting resources
 - such as bananas in central America
 - rubber in central America and Brazil
 - palm oil in central Africa
 - sugar, tea, coffee, tobacco, cocoa in various tropical regions
- Result: rise of capitalism
 - Capitalists replaced aristocratic landowners as the dominant wealthy class
 - 1700s in England:
 - 64% of national wealth was due to inherited agricultural land
 - 20.8% due to production of non-agricultural goods
 - late 1800s in England: the balance was almost reversed
 - 23% of national wealth was due to inherited agricultural land
 - 50% was due to capitalist production