

## Lesson 1: Development of Capitalism

### Lesson 1: Video Lecture

#### Brainstorming Questions

- What were the main characteristic features of capitalism?
- What were the main characteristic features of capitalism?

#### Competencies

- By the end of this lesson, you will be able to:
- List down the main features of capitalism.
- Describe the theoretical foundations of Marxian Economics.

#### Lesson Overview

Capitalism is an political and economic system based on the private ownership of the means of production, and their operation for profit. Hence in this lesson, you are going to learn about the nature and main characteristic features of capitalism.

#### 1. The Nature and Main Features of Capitalism

**Capitalism** grew in the womb of decaying feudalism. It has become the dominant economic system in the Western world since the breakup of feudalism. Many historians agree that fully fledged capitalism emerged in North western Europe, especially in Great Britain and the Netherlands, from the 16th to 17thcenturies, when mercantilism was established. **Mercantilism** is defined as the distribution of goods that are bought at a certain price and sold at a higher price in order to generate profits. The ethics fostered by the Protestant Reformation of the 16th century helped to consolidate capitalism in the Western world. Moreover, capitalism enjoyed the benefits of the rise of strong nation states in Europe. These nation-states succeeded in supporting the development of capitalism through regulations, uniform monetary systems, public investment, etc. and eventually made possible the shift from public to private initiative. Subsequently, capitalism gradually became the dominant economic system throughout the world.

In the 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. As a result of the decline in mercantilism, industrial capitalism arose in the mid-18th century due to the vast accumulation of capital during 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.

## **Capitalism had the following main characteristic features:**

- It is an economic system characterized by private ownership of the means of production, especially in the industrial sector.
- Capitalist society was characterized by the split between two antagonistic classes: the capitalist class and the working class.
- It used accumulated capital to enlarge productive capacity rather than to invest in economically unproductive enterprises.
- The motive for all companies in the capitalist system is to make and sell goods and services only for profits.
- Capitalist societies believe markets should be left alone to operate without government intervention.

The ideology of classical capitalism was articulated by Adam Smith (1723-1790) in his book entitled: *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776). He was a Scottish economist and moral philosopher, who is considered to be one of the forefathers of capitalism. Smith recommended leaving economic decisions to the free play of self-regulating market forces. Smith supported the idea of laissez faire economics that would benefit its practitioners while also promoting society's general welfare.

On the other hand, the growth of industrial capitalism in the 19th century created a vast new class of industrial workers whose generally miserable conditions inspired the revolutionary philosophy of Karl Marx. As Marx suggested, in the socialist system where there was no private ownership and all means of production were collective or state-owned, central planning determined how much should be produced and how all resources were allocated. Therefore, the antithesis of capitalism is Marxian Economics, named after Karl Marx. He believed that capitalism brings about class segregation between the capitalist class and the working class. According to Marx, the exploitation of the surplus value of labor is one of the major drawbacks of capitalism. He said that the working people possess personal property or capital in the form of their labor. By selling their labor to other persons, workers enter into wage labor contracts. The workers profit from their labor and may use the subsequent earnings to buy necessities. The employer, however, also earns a profit from the workers labor. Marx also argued that capitalist economies would weaken in systematic crises. These crises would cause social disturbance. Wealth would become more and more concentrated into the hand of even more privileged class. Marx also predicted the inevitable overthrow of capitalism in a proletarian-led class war.



Source: Grade 12 History text book, page -4.

## **Key Concepts and Terminology**

### *Capitalism*

**Capitalism is often defined as an economic system where private actors are allowed to own and control the use of property in accord with their own interests, and where the invisible hand of the pricing mechanism coordinates supply and demand in markets in a way that is automatically in the best interests of society. Government, in this perspective, is often described as responsible for peace, justice, and tolerable taxes.**

### *Mercantilism*

**Mercantilism is economic nationalism for the purpose of building a wealthy and powerful state.** Adam Smith coined the term “mercantile system” to describe the system of political economy that sought to enrich the country by restraining imports and encouraging exports.