

# Capitalism

Unpublished essay, 2021

## Prologue

The analysis of capitalism has remained mired in old struggles: workers and employers, corporations and communists, and Euro-American empire. Now—in a decolonized world, with empires gone but capitalism everywhere—there is an opportunity to take a fresh look at capitalism. Among the scholars with new perspectives are the historian [Jürgen Kocka](#), the analyst of political economy [Heide Gerstenberger](#), and the economist [Branko Milanovic](#). To these fresh perspectives, I offer additional thoughts based on the framework of world history.

## Essay

What is capitalism? Where did it come from? When did it arise? What came before capitalism and allowed it to emerge? How is capitalism changing? To respond to these big questions, this essay provides a brief interpretive statement reviewing the last thousand years, focusing especially on the last three hundred years.

- “Capitalism” is an economic term, but it applies to a particular form of the economy. The capitalist economy centers on industrial production and wage labor, unites owners in several fields (industry, finance, commerce, and agriculture), and depends on a close alliance of capitalist owners and the state. Capitalism arose in Europe but not only in Europe. For over a century, debates about capitalism took place in the context of Eurocentrism, an outlook in which scholars assumed all modern change to have come from white Europeans. New scholarship, with a global outlook, is identifying global aspects of capitalism in past and present. The results of this expanded framework not only add to regional details about capitalism, but also transform the understanding of capitalism’s functioning.
- Capitalism emerged as a new organization of economic life in the eighteenth century, in which several changes occurred at much the same time. Collaborative groups of merchants and other proprietors gained influence over the governments of the Netherlands and England, changing policies in war, taxation, and borrowing. Monetary capital from industry, agriculture, merchants, and finance became combined and more easily invested. Industrial production, relying on wage labor, expanded steadily. As a result, surplus value—the profit of proprietors over their costs—grew and enabled levels of investment to grow too. Global trade and production, including production by slave labor, expanded at a growing rate.
- For most of a thousand years, an Old World economic network had stretched from the Mediterranean to the China Sea, by land and sea. In this network, numerous productive and commercial innovations and institutions arose and diffused; the network expanded to the whole world as of 1500. Still, the emergence of capitalism was a sharp change—one that did not take place until more than two centuries after the first global maritime voyages.
- Once capitalism formed, it spread its influence rapidly, yet also underwent further transformations. Perhaps the biggest transformation came with the rise of a socialist alternative to capitalism, as the Soviet Union formed during the 1920s.

This narrative relies on a rather long list of factors that have been significant in global socio-economic change over the 1200 years since 800 CE: the economic factors of production, commerce, and capital and its combinations; the forms of labor relations, including abusive accumulation (especially slavery); the governing relations of state,

empire, and war; and the social relations of emancipation, nation, democracy, and state relations with capital and labor. The sections below address, in chronological order, the interactions of these factors.

A very commonly told story of capitalism begins with Italian merchants of the fourteenth century. The story expands to the merchants of other countries of western Europe, then focuses especially on England from the sixteenth to the nineteenth centuries, expanding to the United States for the nineteenth and twentieth centuries. As told here, in contrast, the antecedents of capitalism include all of the Old World from the ninth through the fifteenth centuries and expands to all the continents and islands for the sixteenth and seventeenth centuries, tracing commerce, war, empire and enslavement, in the context of pandemic and climatic shifts. The eighteenth century was the time of the rapid emergence of capitalism, with its leadership in Europe but with essential connections throughout the world. During the nineteenth century, the previously worldwide connections of commerce were transformed into global capitalist domination—in production, commerce, and imperial control. Nevertheless, this expansion of capitalism had to face the challenges of growing struggles of capitalist owners with each other and with workers in many categories. In the twentieth century, social revolution initiated a long conflict between capitalism and its socialist challengers. That struggle ended up, in the twenty-first century, with the collapse and near-abandonment of socialism. The result was a world that was fully organized through capitalism, but which faced great crises in social inequality and environmental degradation.

### **The Global Economic Network, from 800 CE**

Climate warmed, crops flourished, and commerce expanded as global temperature and humidity expanded from the ninth through the thirteenth centuries, resulting in the formation of a global economic network that linked most of the Eastern Hemisphere. Trade routes concentrated on the Indian Ocean, but also on the China Sea, the Mediterranean, and the overland Silk Road from the Black Sea to North China. Such artifacts as Roman coins in Scandinavia, Mediterranean beads in Alaska, and circulation of gold from southern and western Africa have revealed the extent of connections. Commerce expanded or rebounded despite the collisions of warfare, pandemic, and climatic fluctuation. Interregional relations included the long campaigns in the west of import substitution for Chinese porcelain and silk fabric. Navigation and charting the oceans advanced steadily. Recurrent expansion of enslavement took place wherever there was an economic boom, be it in the Mediterranean, India, or Korea. Silver, gold, and cowries served as currency, but merchants also relied on bills of exchange.

In the fifteenth century, European navigators launched programs of expanded voyages. Their vessels were small but were able to sail both calm and rough seas; they created new advances in navigation. From 1500, global maritime links reached their limits, confirming the Earth as a sphere. The processes of the global economic network continued much as before, except that its scope no longer expanded, except in local details. More than ever before, commerce linked local and long-distance trade. Existing empires remained the largest, but new empires reached out to conquer overseas lands, and to practice enslavement and seizure of lands as they did so. Even then, as shown in a recent study, the efficiency and of long-distance commerce showed a gradual improvement, especially for cases where there was competition among merchants.<sup>1</sup>

### **An Alliance of Merchants and State, 1690–1760**

A new process, as much political as economic, opened in western Europe at the end of the seventeenth century. Merchants built alliances in England (in struggles of Protestants vs. Catholics) and the Netherlands (in struggles to avoid French conquest). In both countries, these merchant alliances were able to achieve broad alliance with the state, thereby enabling compromises in taxation, commercial regulation, and warfare that benefited the nation. From 1689 to 1702, both countries were ruled by the same person, William III of Orange. Nationhood and

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<sup>1</sup> Pim de Zwart and Jan Luiten van Zanden, *The Origins of Globalization: World Trade in the Making of the Global Economy, 1500–1800* (Cambridge: Cambridge University Press, 2018).

citizenship strengthened within both Dutch and English nations, and the common rules they developed for international commerce laid the groundwork for collaboration of pro-capitalist states. The alliance defeated the absolutist French monarchy in additional wars up to 1713. The nations expanded in shipping, finance, factory production, expanded slave trade and slave production, war and accumulation in Europe and the colonies. In a great war from 1754 to 1763, the British led in defeating France, with key battles in Europe, the Americas, Africa, India, and Southeast Asia. British victory in this war provided conditions that enabled the full emergence of capitalism

### **Capitalism: Consolidation of Capital and Wage Labor, 1760–1815**

British victory over France and its absolutist monarchy permitted growth for British merchants, industrialists, financiers, and the international links of each. Most basic were the unfolding changes in economic structure – production, labor, and finance. But almost as important and perhaps more visible were the changes in political and commercial relations—war, taxes, and alliances. Together, the two changes brought the combination of capital in England and the Netherlands, enabling industrial capitalism to display its profits and expansion.

Economic structures began rapid transformation, especially in Britain. Key steps were the expansion of factory production (especially in textiles) relying on wage labor, combined with the linkage of industrial, financial, merchant, and agricultural capital that could move more easily to the most profitable investments. The results brought surplus value, in that the value of the output sold exceeded the cost of capital and labor. Levels of investment, innovation, and industrial production thus increased. Wages and working conditions varied greatly—some male workers received what was called a “family wage,” sufficient to support their families; female and child workers often received less than the cost of their reproduction; slave workers (male and female, adults and children) similarly did not receive the cost of their reproduction.

In the midst of Britain’s late-eighteenth-century economic growth, another war broke out. This was the rebellion of the American colonies, which formed the United States in 1776 and fought until victory in 1781. France supported the Americans and shared in the victory over Britain. The war was a great embarrassment for Britain but did not greatly weaken its empire. The most important implications of American independence were in the long term, in that the United States became a major capitalist and imperial power in the nineteenth century, alternating in alliance and contestation with Britain.

The struggles of the French Revolution and the Napoleonic Empire had far greater implications for the near term. The old French regime, with its absolutist reluctance to join in support of capitalism, was destroyed both from within and without. Wars were fought in Europe and European colonies from 1793 to 1815. The results included emancipation for the peasants of France, the creation of an emancipated peasantry in Haiti, and the rise of nationalistic feeling in the United States, France, Haiti, and Germany, plus more. The United States, as a neutral nation, became a major shipping power during the wars. France, once it was led by Napoleon, finally conquered the Netherlands. The Dutch Republic became a monarchy, yet the Dutch economy recovered after the wars.

### **A Century of Growth, 1815–1920**

With the defeat of Napoleon, the French threat to capitalism became minimized. The postwar settlement gave great benefits to the British, who led in a rapid set of political and economic transformations from 1815 to 1850, starting with active construction of canals, railroads, and ports. Of at least equal significance, the postwar settlement created constitutional monarchies in European states that emulated the pro-capitalist policies of Britain: in the Netherlands and France, and later in the German, Italian, and Scandinavian states. In a diplomatic dimension of expanding capitalism, “international law” gained greatly in attention. What had previously been informal agreements among European monarchies on the practices of their competition became, through conferences and treaties, formal rules of the game for competition among pro-capitalist powers accepted within their community of—rules that served especially to expand their global influence.

British adoption of the gold standard served to limit the flexibility of competing nations; a free-trade policy was used to prevent non-capitalist powers from regulating trade. Britain began a campaign against slave trade from 1807, eventually emancipating British slaves in 1838. Britain conquered India from 1815 through the 1820s, creating the first capitalist empire; with the Opium War of 1839–42, Britain expanded trade with China on British terms. In Brazil, Cuba, and the United States, expanding slave populations produced goods for the market in what is logically considered a part of the capitalist system.

From 1850 to 1920, capitalist regimes created corporations, heavy industry, capitalist empires, global institutions, and great quantities of armaments. Railroad construction, scheduled steamer lines, and even the Suez Canal changed the character of transportation; communications expanded as telegraph lines were laid across land and sea. The updated list of capitalist powers included Britain, the United States, France, and then France, Italy, Japan, and Germany as the latter nations gained new regimes. What can only be called capitalist empires were created with seizures of western North America, Southeast Asia, portions of the Middle East and Central Asia, virtually the entire African continent, and the Pacific islands. Even autocratic Russia and imperial China began industrialization.

But it was not all triumphal expansion. The year 1848 brought emancipatory rebellions all across Europe. The rebellions failed but in Europe and elsewhere, trade unions and socialist parties formed to expand contestation on behalf of workers and communities. Millions of slaves gained emancipation, but millions more remained in chains: the emancipation of slaves led immediately to the rise of white-supremacy movements. Two emancipatory rebellions in Asia suffered millions of casualties: the Taiping revolt of the 1850s in China, repressed by the Qing monarchy, and the 1857–58 uprising in North India, repressed by the British East India Company and the newly formed British Raj.

Trade union movements grew steadily, especially in the centers of industry but also in transport, mining, and manufacturing worldwide. Trade unions lost most of the struggles they launched for the right to represent members, yet grew thereafter and gained community allies. The International Workingmen’s Association met in 1864 in London, forming a grouping of trade unions and socialist parties that lasted for a decade. This “First International” was followed by the Second International, which expanded from the Paris meeting of 1889 to 1916. Parties and trade unions of the Second International reorganized their collaboration after World War I and again after World War II; in that time they gained electoral influence, supporting reforms in pensions, union rights, and public services.

### **The Socialist Alternative, 1920–1990**

World War I and its aftermath brought great turmoil. It brought a slaughter of troops for the imperial powers, especially in Europe but also in the colonies, and it revealed the flaws in the imperial order. After the war, the great powers agreed to form a League of Nations in the hope that it would conciliate the empires and avoid another conflagration. Yet the defeated powers of Germany, Austria, and the Ottomans were prevented from joining, while the United States and the Soviet Union chose not to join.

In a different sort of effort at conciliation, the powers formed the International Labor Organization in 1919 as an act of the Treaty of Versailles, to give recognition to the rights of workers. The tripartite membership system included representatives of governments, workers’ organizations and employers’ organizations for each member nation. As a result, from this time, workers had rights of organization in principle, though conditions varied greatly from nation to nation and in the colonies.

The most explosive postwar transition was the Russian Revolution, which brought collapse of the empire and the rise of the Bolshevik Party, which led an alliance of workers and peasants and survived years of civil war and invading forces, to establish the Soviet Union in 1922. The Soviet leadership, after some years of a “New Economic Policy” intended to conciliate the contending supporters of the regime, decided in the late 1920s to focus on rapid industrialization, administered centrally. The purpose was both to defend against possible invasion and to

demonstrate the effectiveness of socialism. The results brought long hours, low wages, forced collectivization of farms, losses to famine, exile for those suspected of disloyalty, and trials and executions of leading figures. Nonetheless, the combination of industrial strength and immense numbers of casualties enabled the regime to survive the German invasion of 1941–45. Meanwhile, interwar politics also reflected Soviet influence. As the Bolsheviks gained the upper hand by 1920, a global wave of splits broke out within socialist parties. Roughly half of the activists remained in the socialist parties of the Second International, while the other half formed communist parties that joined the Third International, which lasted to 1943. These communist-led parties and trade unions carried out militant programs for emancipation via workers' rights and decolonization, in alliance with the Soviet Union.

In the interwar years, 1920–1940, socialism and nationalism—sharply different issues—were the great topics of debate. While socialism came to be coherently focused on the Soviet Union, nationalism expanded in numerous and contradictory directions. The forms of nationalism included the racist, corporatist, business-oriented nationalism of Italy, Germany and Japan; the pro-socialist nationalism of the Soviet Union; the anti-colonial and anti-racist nationalism of India and many other Asian and African colonies; and the national patriotism of the United States, Britain, and France, emphasizing democracy but still relying on white supremacy. Economic depression impoverished much of the world from 1929 to 1940. The macroeconomic analysis of John Maynard Keynes encouraged capitalist states to expand government spending to counter the business cycle, a tool used effectively during and after World War II. Trade unions expanded in influence during the Depression and war and maintained their strength through the 1970s.

World War II became inevitable with the 1937 Japanese invasion of China; the war ended in 1945 with Japanese surrender. Both mobilization and destruction reached unprecedented levels, as was punctuated by the atomic warheads that destroyed Hiroshima and Nagasaki. The postwar era, from 1945 to 1990, included multiple transitions. Of the numerous and mostly unexpected postwar global transformations, these five stand out. The postwar era was a time of Cold War and threatened nuclear annihilation opposing the political blocs led by the Soviet Union and the United States. It was an era of decolonization in which the empires rapidly collapsed through war or peace, enabling the creation of over a hundred new nations. It was an era of social welfare, in which conditions of education, health, pensions and other social services expanded dramatically for people in nations at once capitalist and socialist, rich and poor. It was also the era in which trade unions reached their peak in membership and social influence, though with bitter disputes among their national and industrial factions. In addition, the United Nations and its many agencies, formed especially on the initiative of the United States, provided a lasting if problematic arena for international agreement and disagreement.

Nationalists, socialists, and especially communists had put great energy into the war effort, emerging from the war with widespread recognition that lasted for a few years. The Soviet Union faced a huge cost in postwar reconstruction yet managed to balance the Cold War with advances in nuclear armament and space travel. Socialism advanced along several paths from the 1940s to the 1970s. Seven Eastern European people's republics were created in close alliance with the Soviets; the Chinese Communist Party emerged victorious from civil war in 1949; communist regimes gained power in Vietnam and Cuba, communist parties carried out political and economic campaigns on every continent, and several ex-colonial nations became formally socialist, often under military rule. For all of these states, however, achieving economic growth was a costly affair. In socialist states and single-party states of Africa and Asia, trade unions agreed to ally with state, thereby giving up rights to negotiate for members. As global economic growth slowed in the 1970s, the Soviet and Chinese economies grew more slowly than the capitalist economies.

The United Nations maintained its original 1945 charter, but its practical structures changed dramatically as its membership rose from 50 to nearly 200, so that ex-colonial countries became the majority of the United Nations General Assembly. From the 1970s, this majority sought to create a New International Economic Order, to renegotiate conditions of trade and investment with the great powers, but these efforts were rejected.

The postwar consolidation of industry and financial capital led to an expansion of firms known as transnational or multinational, and to the movement of productive enterprises from previous centers to Asian and Latin American nations. Continuing changes in technology and consumer markets led to a succession of the leading industries: from automobiles to petroleum, to computers, to electronics more broadly, and to financial institutions.

### **Capitalism, Alone, from 1990**

From 1989 to 1992, a global wave of social movements, headed by young professionals calling for democracy, brought collapse of most socialist regimes and many other single-party regimes—centering on the June 1989 repression of massive demonstrations at Tiananmen in Beijing, the November opening and destruction of the Berlin Wall, and the February 1990 release of Nelson Mandela from captivity in South Africa. With the collapse of Soviet Union in 1991, the previous system of state enterprise and social welfare was dismantled and privatized; the decline in national wealth was paralleled by the rise in individual fortunes. Meanwhile, the capitalist powers formed the World Trade organization in 1995, replacing the UN-based international trade organization, so that earlier priorities of trade equity were replaced with free trade programs suitable to big powers.

These dramatic political shifts confirmed the significance of an earlier ideological change: the emergence of neoliberal ideological hegemony in the capitalist world from about 1980. Neoliberal philosophy, centered on financial capitalism, gained a powerful intellectual and political role by 1980, giving top priority to financial institutions and minimizing any regulation of capital. One aim and achievement of neoliberal finance was to seize the balances that had grown up in pension funds during the era of social welfare and invest them in stocks and bonds. More broadly, trade unions and social welfare policies were sharply constrained worldwide through policies of the World Bank, International Monetary Fund, and programs of the U.S. and British national administrations.

China's leadership, especially from 2000, moved rapidly to privatize much of its economy, so that it was absorbed into the capitalist world yet under the control of its communist elite. China's earlier period of privation and intensive investment under socialism therefore brought extraordinary growth under capitalisms. The Chinese bid for leadership in the world economy was highlighted by the rapid expansion of several of the world's largest banks.

### **Conclusion**

This interpretation of capitalism is set in the context of a millennium of socio-economic history. Yet it focuses on two crucial changes within a century, arguing that they brought the emergence of capitalism and its specific structures. Thus, I take the year 1800 as the approximate moment of capitalist emergence. I also label that moment as the beginning of the Anthropocene Epoch in the environmental history of the Earth.

In just over two centuries since 1800, human population size accelerated, health conditions improved at an accelerating rate, knowledge expanded through the institutions of public education and universities, technology advanced relentlessly through innovations in many fields, profits and the accumulation of wealth expanded but with wild fluctuations, racial hierarchy reached a peak and then declined, trade unions rose and fell, socialism rose and fell. Democracy expanded, according to many measures, but the expanding levels of social inequality and hierarchical control reversed many of the moves toward democracy. Meanwhile, the very existence of the Earth as a livable space came to be threatened by climate change and by exhaustion of biota, along with the pollution of the waters and extraction of mineral resources.

This interpretation, in centering on the changes since 1690, takes for granted the many advances in commerce, production, and the social order that had accumulated over the preceding centuries, in order to give attention to the social and economic innovations of the eighteenth and nineteenth centuries. On the other hand, it is clear that the emergence of full-blown capitalism by 1800 could not have taken place without the earlier, smaller changes in socio-economic life—in Europe and everywhere else in the global economic network. Perhaps more study of the long-term history of capitalism will help explain the current, dizzying changes taking place in the world capitalist order.



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### INSPIRATION FOR THIS ESSAY:

## Gerstenberger, “Capitalist Labor”

Heide Gerstenberger, “The Political Economy of Capitalist Labor,” *Viewpoints Magazine*, September 2, 2014.

The conviction that capitalist production requires laborers who are not only dispossessed of autonomous means of production, but are also legally free to offer their capacity to labor on the market, has been central to Marxist analyses of capitalism. Any endeavor to confront this thesis with the actual history of capitalism not only runs counter to the dominant content of traditional Marxist analysis, but also to the fundamentally optimistic Marxist philosophy of history. . . .

The notion of the incompatibility of slavery with capitalist production is not only dear to proponents of capitalism, but also, at least until very recently, to most of its critics. More often than not the adherence to this conviction has been taken to be a touchstone by which to decide if an analysis could be accepted as Marxist or not. . . .

Marx would have been correct in postulating that the enslaved workforce was exploited to an early death and therefore had to be continually replaced, if he had restricted himself to the West Indian sugar colonies. But the enslaved workforce in the United States was not only biologically reproduced, but growing. The mobility of labor, which indeed is a requisite for a capitalist labor market, was managed through the practice of hiring out slaves, as well as through the marketing of slaves. Where technology was introduced, as for example in Caribbean sugar mills, sugar was no obstacle to its competent operation. . . .

When a global labor market came to increasingly replace the former slave trade in the middle decades of the 19<sup>th</sup> century, its dominant institutional form was a trade in labor contracts. Even if recruiters made use of “coolie-catchers” who were known not to shrink from outright kidnapping, and even if the future laborers were not able to read or to write their name and had been deceived about the conditions of their servitude and the continent where they were going to be employed, the fiction of a labor contract to which both partners had freely agreed was upheld. . . .

And it was especially in factories that German employers disproved the conviction that forced labor cannot be used in modern industry. In spite of the fact that in some firms in the armament industry more than thirty and sometimes even more than sixty percent of the work force consisted of forced labor, the output of these firms grew threefold between 1942 and 1944. . . . The offer of concentration camp prisoners for private exploitation was motivated by the intention of the SS to further its political influence; it was not the result of political intentions to integrate economic rationality into the machinery of terrorism and deconstruction. Racism remained the guiding principle of strategy. . . .

Indeed, I insist on the hypothesis that open constraint and repression are constant possibilities of capitalist labor regimen. Far from marking a certain epoch of capitalist development, violence is constantly hanging about in the wings of capitalist labor relations. It comes into the open when governments and societies refrain from decisive objection.