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The Evolution of Modern Capitalism

A Study of Machine Production

J. A. Hobson



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J. A. Hobson's *The Evolution of Modern Capitalism* was first published in 1894, although this reissue is of the fourth edition, published in 1926. The work traces the developments in trade and industry which characterised the first decades of the twentieth century. In the first part, Hobson deals with the origins and structure of modern capitalism, including the development of the machine industry, the changing structure of trades and markets, and the effects of these on workers and consumers. The final supplementary chapter considers the impact of World War I on this changing economy, and the 'disturbance, recovery and readjustments' which the war necessitated. This is a classic work of importance to economic historians and those with a particular interest in the history of capitalism.

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MODERN CAPITALISM

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A Study of Machine Production

JOHN A. HOBSON
M.A.

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PREFACE TO NEW AND REVISED EDITION.

IN the long Supplementary Chapter added to this new edition of *The Evolution of Modern Capitalism* I have endeavoured to trace and illustrate the chief movements of trade and industry which are distinctive of the opening quarter of the twentieth century. In the first part of the chapter I have dealt chiefly with the movements prior to the Great War, though in some cases I have brought the statistical record of events up to the present time. It is, however, evident that the War period (1914-1918) makes a definite cleavage in economic as in general history, and that the mode, the direction, and the pace of capitalist development have undergone great changes in consequence of the War and its political and economic sequelæ. The period has been one of disturbance, recovery, and readjustments.

The redistribution of political boundaries and controls, not only in Europe, but in Africa, Asia, and the Pacific, have affected industrial development and trade routes.

State policies during the War and after have had important reactions upon the relative growth of industries and upon the structure of businesses, stimulating in no ordinary degree the combinations and associations which always modify and often displace the competitive system.

The new development of electric power, for transport,

PREFACE TO NEW AND REVISED EDITION.

industry, and domestic purposes, is already producing changes not only of industrial structure but of the relative importance of the industrial areas of the world. Water power and oil are seen to be determinants of economic strength. Assessments of current economic strength, in terms of coal, iron, foreign trade, etc., give some valuable indications of the changing wealth of the advanced industrial nations—in particular, the new place taken by the United States as a financial and economic power. Post-war difficulties and disturbances have ripened old problems and disclosed new ones in the field of international finance, the control of backward countries with rich natural resources, and the relations between capital and labour within the several countries and in the international sphere. I offer some brief settling of these problems, in terms of fact and figure, as a contribution towards a speculative forecast of the capitalism of the near future.

J. A. HOBSON.

May, 1926.

PREFACE TO THE REVISED EDITION.

THIS new and enlarged edition of *The Evolution of Modern Capitalism* contains additions and alterations so great as to constitute it in effect a new book.

The chapters dealing with the concentrative forces in modern industry, the growth of industrial Combinations, Trusts, Cartels, etc., are entirely rewritten. Large use has been made of recent English and American material, and much attention is given to new developments of capitalism in the transport and manufacturing industries of the United States.

In Chapter X. an analysis of the position occupied by the financier in modern industry is presented, with illustrations from recent developments in South Africa and America.

While most of the matter of the earlier historical chapters in the first edition is retained, numerous emendations and additions have been made, and an introductory chapter on the Origin of Modern Capitalism, based largely upon the researches in Professor Sombart's great work, *Der Moderne Kapitalismus*, has been inserted.

For material relating to capitalistic combinations in Great Britain I desire to express my deep indebtedness to the writings of Mr. W. H. Macrosty, whose collection

and analysis of instances form the best single fund of information. For recent American material relating to Trusts I have made large use of the reports of the Industrial Commission and the writings of Professor Richard Ely and Professor Jeremiah Jenks.

J. A. HOBSON.

August, 1906.

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THE EVOLUTION OF MODERN CAPITALISM.

CHAPTER I.

THE ORIGIN OF MODERN CAPITALISM.

- § 1. *The first conditions of Capitalism.*
- § 2. *Mediæval repositories of Wealth.*
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- § 8. *Similar movement in Continental Europe.*
- § 9. *Slow growth of use of Machinery.*
- § 10. *The Spirit of Economic Rationalism.*
- § 11. *Causes of England's priority in Capitalism.*

§ 1. Capitalism may provisionally be defined as the organisation of business upon a large scale by an employer or company of employers possessing an accumulated stock of wealth wherewith to acquire raw materials and tools, and hire labour, so as to produce an increased quantity of wealth which shall constitute profit. Wherever in the course of history a conjunction of certain essential economic and moral forces has appeared, capitalist industry in some form

and size has existed. These essential conditions may be thus enumerated:—

- First, a production of wealth not required to satisfy the current wants of its owners, and therefore saved.
- Second, the existence of a proletariat or labouring class deprived of the means of earning an independent livelihood by putting their productive labour-power into materials which they can freely appropriate, purchase, or hire, consuming or selling the product for their own advantage.
- Third, such a development of the industrial arts as enables indirect methods of production to afford profitable employment to organised group-labour using tools or machinery.
- Fourth, the existence of large, accessible markets with populations willing and economically able to consume the products of capitalist industry.
- Fifth, the capitalist spirit, or the desire and the capacity to apply accumulated wealth to profit-making by the organisation of industrial enterprise.

These are, of course, no series of wholly independent conditions. On the contrary, they are closely inter-related. The causes which favour an accumulation of wealth in one class of a nation, or other social aggregate, will commonly assist the formation of a proletariat labour class. The existence of a population capable of generating new wants will help not only to stimulate accumulation, by offering the possibility of large profitable sales, but will also arouse the development of industrial arts, which in their turn will react upon the consuming public by provoking new wants. Such an atmosphere of technical progress, alike in the arts of production and of consumption, will educate the desire and the capacity of capitalist organisation.

§ 2. The forms which capitalist enterprise takes differ widely according to the relative development of these constituent forces or conditions.

Unless we regard as capitalist enterprises the military and naval expeditions for pillage, to which so large a share of the accumulations in the ancient world and throughout the Middle Ages was applied, the area of older capitalism was

virtually confined to certain public or semi-public works, such as palaces, temples, tombs, castles, and other edifices for ostentation or defence; the making of roads, water-courses, and other permanent improvement of transport; mining, chiefly for precious metals; and certain expensive and hazardous branches of commerce with distant parts. Slave or serf labour applied to the cultivation of the soil may also be accounted a species of capitalism in ancient times. Of the most characteristic branch of modern capitalism, large-scale manufacture, the ancient world contains few traces.

Until the close of what we call the Middle Ages none of the conditions we have named as essential to a wide general development of capitalism was present, and two at least did not assume considerable dimensions until the eighteenth century.

As we briefly trace the emergence of these forces in the modern world, we shall bring into prominence the distinctive features of modern as distinguished from ancient capitalism, as well as furnish an explanation of the rapid growth of the capitalist economy.

In his elaborate research into the sources of accumulation in the Middle Ages, Sombart finds five principal repositories of accumulated wealth:—

1. The papal treasury at Rome, fed by the contributions of the faithful, and enormously enhanced during the period of the Crusades.
2. The knightly orders, foremost among them the Templars, whose establishments extended over the entire known world, from Greece to Portugal, from Sicily to Scotland.
3. The royal treasuries of France and England.
4. The higher grades of the feudal nobility.
5. The city funds of the important commercial centres, Venice, Milan, Naples, ranking first, followed by Bologna and Florence in Italy, Paris, London, Barcelona, Seville, Lisbon, Bruges, Ghent (later Antwerp), Nürnberg, and Köln.¹

¹ *Der moderne Kapitalismus, Zweites Buch. Zehntes Kap.*

If we seek the actual origins of these early accumulations we run them "to earth" in rents of agricultural and city lands, in the working of mines, and the discovery or pillage of ancient treasures of the East. In the Middle Ages the home trade and the industrial crafts were never anything else than means of "livelihood," their scale and the conditions under which they were conducted furnishing no scope for considerable accumulations. Though in the later periods of the Middle Ages large profits were made out of Colonial trade and money-lending, these processes implied the pre-existence of large accumulations which were essential to their operations; moreover, further analysis of Colonial trade and money-lending drive down to labour on the land as the prime source of their profits.

§ 3. The historical foundation of capitalism is rent, the product of labour upon land over and above what is requisite to maintain the labourers; this surplus accrues by political or economic force to the king, feudal superior, or landowner, and can be consumed or stored by him.

By taxes and tolls, fines, rents, or even by voluntary contributions, the king, the Church, the landlord, was able to draw from the cultivation of the land the surplus product of the more fertile soil, and most of the increment of the productivity of agriculture due to improved methods of cultivation. Systems of taxation and of land tenure were evolved in order to extract as much as possible of these natural surpluses for the benefit of the political or economic superior. This power, however, to draw from the cultivators a large amount of the produce, though conferring on the landowner or feudal superior a large command over surplus wealth for his personal consumption and that of a body of idle retainers, would not in itself enable him to accumulate, for the wealth he thus received would consist almost wholly of perishable goods; even the forced labour he sometimes extorted in lieu of produce was of necessity applied chiefly to the production of buildings, roads, bridges, etc., which, though of more permanent utility, could contribute little to such accumulation as is required for capitalism.

To the surplus product of agriculture must be added the rents of town lands. Though the small town trader or craftsman under primitive conditions was seldom able to make sufficient savings out of his profits to become even a

local usurer, the growth of the smallest sort of town yielded to the owner of the ground on which it stood a number of little rents whose growth became a considerable source of wealth. As from his country estates the feudal noble was able to squeeze from the peasants the fruits of improved agriculture and more settled government, so from his town lands he could take the value of improvements of the industrial arts. The beginnings of the wealth of cities are accumulated ground rents.¹

Investigations into the records of the early history of rising cities show that in nearly all cases the early capitalists are representatives of the families originally in possession of the ground on which the town is built. The landowners necessarily controlled the laying out of streets; the mill, the smithy, the markets were made or controlled by them; houses, booths, and workshops were often built by them. The increments of city values came to them in hereditary or life leases, or in time leases; while sales of these town lands and redemptions put large sums into the hands of the territorial aristocracy, who as early as the thirteenth century in Italy and Flanders are found in the position of large "capitalists."

"It was a slow, gradual, and for the working population an unobserved draining of small particles of labour which in course of time was destined to serve as the foundation of the capitalist economy."² The important point to recognise is that whether the industry whose surplus profits (the excess over the subsistence of the worker) is agriculture, or town handicrafts and trading, the first instrument of appropriation is the ownership of land.

§ 4. But we must look to another sort of labour on the land to furnish the technical condition of effective accumulation. Payment of rents for country or town lands in kind could not found capitalism. The discovery and appropriation of the precious metals are essential to this achievement. It is necessary that the original power of drawing rents should be monetised before the possession of capital can become itself a basis of profit. Until "treasure" could be obtained and retained in Western Europe modern capitalism could make no really considerable start. The

¹ Cf. Sombart, vol. i. p. 291.

² *Ibid.*, vol. i. p. 268.

earlier treasure-houses were in the East, and during the early Middle Ages Western intercourse with these older civilisations meant a constant suckage of the precious metals eastwards to pay for the goods which came into Europe through the Levant trade. Though Germany and Austro-Hungary turned out considerable quantities of gold and silver, these passed through the hands of the Italian merchants into the East. Not until the collapse of the Byzantine empire opened the Ægean and the Asiatic coast to the plunder and exploitation of Italian rulers and merchants did the tide begin to turn and Western Europe obtain the supply of money required as a basis of capitalism.

Economic historians often misrepresent the part played by money. The development of mines and a large output of the precious metals assist the rise of capitalism in that they give to the possessors of these precious metals a power to divert into channels of indirect production the surplus industrial energy drawn from the producers in taxes, tolls, rents, etc. A sufficient development of agriculture and of other industrial arts to furnish such a surplus is a pre-requisite. The existence of the precious metals in a community enables the type known as "the business man" to arise and function by directing the flow of "superfluous industrial energy" from the production of immediate to that of mediate goods; or in other words, from the direct production of consumers' wealth to the production of industrial and commercial capital-goods. This does not necessarily occur as a result of the discovery of gold and silver even in a fairly civilised state. The owners of wealth got from mines may, often do, use it chiefly for ostentation and for decorative consumption. But blended with this use is the recognition of another use of precious metals and jewels as a store of value which on occasion may give the owner a command over other forms of wealth and over the energy of men.

This storage of treasure in the hands of kings, nobles, and of cities is first conceived with the design of providing for defensive or offensive warfare. For defence or attack it is necessary to maintain and equip quickly large bodies of men, to furnish weapons, ships, and other expensive apparatus of war, and the earliest forms of large enterprise

which resemble capitalist industry are the equipment of land and sea expeditions for conquest and plunder. The early funds not only of monarchs but of the Italian cities in the Middle Ages were chiefly designed and used for war.

So long as the surplus-product of labour passed, in forms of tax, toll, and rent, into the hands of kings and nobles, the Church, the orders, and city funds, whether to be consumed in luxury or to be accumulated as treasure, it could not give rise to capitalism.

§ 5. It was essential that masses of this surplus wealth should pass into the hands of "business men," who should seek to make it a basis of "profitable" use. Now, records seem to point to two chief origins of such a class.

The rise of the great mercantile power of the Italian cities clearly indicates one origin—the entrance of members of the landed aristocracy into city life and burgher occupations. With the growth of more settled order in the country, and of a softer, more luxurious habit of life, some of the landed nobility came to settle in the cities, bringing with them their rent-rolls and buying more city lands. Especially the younger branches of the nobility, no longer wholly occupied with war, came into town life. This merging of the landed nobility with city life was earlier and freer in the Italian and Flemish states than in France or Germany, and the larger quantity of money thus brought into the cities by the "monetisation" of the rents of their estates contributed not a little to the earlier development of large commercial undertakings by Italian and Flemish merchant-houses. In England also from the thirteenth century the lower nobles began to mix more easily with burgher life, and "the younger sons of the country knight sought wife, occupation, and estate in the towns."¹ "A large proportion of the London apprentices were drawn from the houses of rural gentry"² in the time of Elizabeth, the cleavage between the landed and the moneyed interests not having yet begun to display itself. So, too, in Germany the early commercial prosperity of such towns as Augsburg, Nürnberg, Basel, and Köln was fed from a similar source. Unfortunately, the history of Germany in the later Middle Ages tended more

¹ Stubbs, 197.

² Cunningham, *Growth of English Industry*, vol. i. p. 126 (8vo, 1903).

and more to estrange the landed nobility from the peaceful life and pursuits of towns, a fact which greatly contributed to retard the commercial and industrial development of that country.

While many of the great business men of the Middle Ages in Italy, Flanders, Germany thus sprang from the landed aristocracy, possessing agricultural rents, tolls, and fines as their commercial nest-egg, the smaller owners of city-grounds, the original burgher-families, played an equally important part in cases where the town-lands were not closely held by noble or by church. These original settlers, small farmers at the start, extending their holdings, often encroaching on or dividing by agreement common lands, formed strong local oligarchies, sucking the rising land values to form the capital which they afterwards employed in commerce.

To these nobles or small land-holders who passed into commerce with accumulations directly derived from ground-rents, must be added the officials who, under the feudal system, were quartered upon the public resources in lucrative offices of state, or were entrusted with the collection and farming of taxes and tolls. Not only were the salaries of chancellors, marshals, and other high officers extremely large, but all officials connected with the raising and expenditure of public moneys had opportunities for peculation which were freely exercised. The ruling families in the cities could thus add to their private ground-rents a share of the city funds. So large shares of the original accumulations of royal and papal treasuries, and of the rents and endowments of monasteries and cities passed into the hands of the business men, who were agents for these great public sources of income.¹

The management of the estates and the finances of the private land-owners, lay and spiritual, was largely entrusted to a class of business officials, who, as rent collectors, stewards, bailiffs, reeves, intendants, came to share the riches of the landlords. But it must be remembered that in whatever form incomes came to these public or private officers and agents, as salaries, fees, profit, or peculation, land-rents were the almost exclusive origin.

¹ So the Spini, Spigliati, Bardi, Cerchi, Pulci, Alfani, and later the Medici, became the great bankers of the Papacy. (Sombart, vol. i p. 251.)

Given a class of business-men with such sources of accumulation in their hands, it is not difficult to perceive the chief profitable use to which they could put this "capital." The most important branch of primitive capitalism is "usury" or "money-lending," and the part this played in converting feudal into burgher wealth was noteworthy.¹ The great spiritual landlords were driven to borrowing money in order to forward to Rome the increasing monetary contributions which the "age of faith" called forth; the temporal lords, embarrassed by the growing expenses of war and of building (the two chief uses of money), were drawn more and more into debt to the "banking-houses" in Italy, Flanders, and Germany. The Crusades form a chief landmark in this growing power of the new business class, compelling the Crusaders to borrow for their expenses of equipment and travel, giving increased power to their stewards and agents, and bringing back a new influx of luxurious habits of life from the East which led them into further extravagances. In Italy and elsewhere increasing quantities of land were thus alienated from their aristocratic owners, forfeited for debt. When the period of the Renaissance brought the fuller influence of the East to bear upon "barbarous" Europe, and cities began to assume an air of luxury and to exercise influence as "social centres," the country nobility and gentry wishing to enter this new life, found themselves short of money and compelled to borrow from the rich burghers. Beginning in Italy as early as the thirteenth century, this movement reached Germany in the fifteenth, and England in Elizabeth's reign showed that the "money-lending" business was so large and profitable as to tempt not only Continental capital but Dutch settlers from Amsterdam and elsewhere to compete with the Jewish and Lombard houses in London.²

Extravagance of dress was itself a considerable factor in the borrowing habits which built the wealth of the city financiers.

§ 6. But all these modes by which capital has passed from the ownership of landlords into that of business men furnish an inadequate explanation of the rapid increase of

¹ Cf. Sombart, vol. i. p. 255.

² Cunningham, vol. i. p. 324.

wealth in Western Europe. Without far larger access to monetary treasures as instruments of concentrated accumulation, without larger opportunities of gathering the various material resources for the development of the industrial arts, modern capitalism would have been impossible in its existing dimensions. Western Europe supplied no adequate output of precious metals from the mines: her agricultural population afforded no increase of production in the form of rents large enough to furnish a great stream of accumulating wealth, nor could the productiveness of the industrial arts of the towns yield a rapid growth of profit. The economy of mediæval Europe did not expose a large landless proletarian population to the free exploitation of profit-seeking masters. The labour basis of modern capitalism was lacking.

The exploitation of other portions of the world through military plunder, unequal trade, and forced labour has been one great indispensable condition of the growth of European capitalism. "The riches of the Italian cities is quite inconceivable apart from the exploitation of the rest of the Mediterranean; just as the prosperity of Portugal, Spain, Holland, France, and England is unthinkable apart from the previous destruction of the Arab civilisation, the plundering of Africa, the impoverishment and desolation of Southern Asia, and its island world, the fruitful East Indies, and the thriving states of the Incas and Astecs."¹

The Italian republics were the first to take this work in hand. The close of the Crusades saw them in virtual control of numerous cities in Syria, Palestine, the Ægean, and the Black Sea. From the beginning of the twelfth century, Genoa, Pisa, and Venice fastened their economic fangs into the towns of Arsof, Cæsarea, Acre, Sidon, Tyre, etc. The break up of the Eastern empire gave Venice a vast colonial power, not less than three-eighths of that empire falling under her single sway; while her rival, Genoa, also acquired large possessions among the Ionian islands and on the mainland. Asia Minor and the Ægean islands were full of rich natural resources, with large civilised populations inheriting arts of skilled industry as yet unknown to the Western world. The Italian cities did not pretend to colonise in any

¹ Sombart, vol. i. p. 326.

modern sense this vast empire, but established trading centres in the chief towns and took rich toll of the manufactures. They found in Antioch, Tripolis, Tyre, a flourishing silk industry; cotton in Armenia; glass and pottery in Syria; and considerable mining operations in Phocis and elsewhere. Their mode of exploitation seems to have been an adaptation of the feudal system, by which as overlords they exacted a large portion, usually one-third, of the total produce of the soil, mines, and industry. This form of infeudation, which later on the Spaniards introduced into America under the title of Encomiendas, existed long before in these Italian colonies of the Levant. Later on the feudal form dropped off, giving place to the sway of privileged companies wielding a royal or state monopoly.

The real significance of this early "colonisation" for the rise of modern capitalism was that it afforded the first opportunity of profit on a large scale, by placing at the disposal of the Italian masters a large supply of skilled serf labour. Not only was the property of whole provinces confiscated to the conquerors, but the condition of large masses of the inhabitants was, from old usage, one of virtual slavery, "all rights and possessions in men, women, and children" passing to the new feudal superiors. The Italian conquerors found also a most profitable inheritance in the slave-trade, which Byzantines and Arabs had carried on from ancient times. This slave-trade they greatly extended by means of a premium system, bringing in great numbers of captive Mussulmans, so that, for example, the increase of population in Crete alone under their rule was from 50,000 to 192,725.

Thus early was laid the foundation of the profitable trade which furnished to Western Europe the accumulations of wealth required for the later development of capitalistic methods of production at home. A huge "proletariat," slave or nominally free, was first placed at the disposal of Europe in the near East. The treasures of the East, its hoarded gold and slaves, its rich textiles, its spices and other concentrated wealth, poured into Western Europe through the hands of the Italian traders and bankers. The lesson taught by this early experiment was that the chief advantage of conquest lies, not in the discovery and seizure of hidden accumulated treasure, important as that was in the case of

early Eastern empire, but in the continuous exploitation of large quantities of forced labour.

The Portuguese and Spanish learned this lesson well, recognising that "the true riches of new-discovered lands are their inhabitants." The Spaniards in Mexico and Peru, the Portuguese in West and East Africa, the Dutch in Malacca, Java, and Ceylon, bettered their early instructions, founding their economic dominion upon an even stronger basis of "forced" and "slave" labour with a fuller organisation of the slave supply. The black population of Africa was, of course, the great reservoir for the new tropical economy of the European colonial system which spread through Central America, Brazil, and the West Indies, taking root later on in North America. The dimensions of this trade from the beginnings of its development at the opening of the sixteenth century by the Portuguese were enormous: the actual number of slaves in use at any given time presents but a slight idea of its bulk, for the waste of life involved in it was so large and the duration of the economic life of the slaves so short. In 1830 the European colonies contained only about two and a half million slaves; but during three centuries a stream of countless millions had been flowing in to be used up as "raw material" in the colonial products which built the early fortunes of Spanish, Portuguese, Dutch, and British merchants.

The profits of the European companies embarking in early colonial trade were very large, for slave economy is not in itself and under all circumstances bad. Merivale clearly points out the main condition of its profitable use. "When the pressure of population induces the freeman to offer his services, as he does in all old countries, for little more than the natural minimum of wages, those services are very certain to be more productive and less expensive than those of bondsmen. This being the case, it is obvious that the limit of the profitable duration of slavery is attained whenever the population has become so dense that it is cheaper to employ the free labour for hire."¹

In other words, Western Europe until the nineteenth century did not present the large supply of landless

¹ Merivale, *Lectures on Colonisation*, vol. I. pp. 297, 298.

labourers required as one condition of great profitable capitalism. It is for this reason that colonial economy must be regarded as one of the necessary conditions of modern capitalism. Its trade, largely compulsory, was in large measure little other than a system of veiled robbery, and was in no sense an equal exchange of commodities. Trading profits were supplemented by the industrial profits representing the "surplus-value" of slave or forced labour, and by the yield of taxation and plunder.

"The particular significance of the colonial economy is that it affords undertaker's profits before the conditions of true capitalism are ripe, before the required accumulation of money has taken place, before there is a proletariat, and before free land has disappeared."¹

§ 7. The growth of a large proletariat in Western Europe was an essential condition for capitalist industry. That meant an increase of rural population beyond the means of subsistence on the soil, according to current modes of agriculture and land tenure, and an increase of town population incapable of earning a livelihood as independent artificers or craftsmen. Now this condition was long delayed by the slow growth of population in the European nations. Famine, plague, and war kept down the population through the Middle Ages: the death-rate of children was enormous, and the effective life for the mass of the people was very short. Though no really reliable statistics are available, it is pretty well established that up to the eighteenth century the rate of increase of population for Europe as a whole was very slow, and even during the eighteenth century showed no great expansion. In Germany for a long time after the Thirty Years' War the population actually fell off, recovering only in the eighteenth century. France about the middle of the eighteenth century reached again the numbers she had attained in the first half of the fourteenth century, and still stood below the 18,000,000 she had attained after the death of Louis XIV. Holland and Belgium seem hardly to have increased for three centuries. From the last half of the sixteenth century to the beginning of the eighteenth century Italy was stagnant at

¹ Sombart, vol. i. p. 358.

about 11,000,000. In Spain the population showed an extraordinary decline during the sixteenth and seventeenth centuries.

The English population estimated at nearly 2,000,000 at the time of Doomsday, seems to have grown very slightly for three centuries, reaching not more than two and a half millions by 1377, in the last year of Edward III. During the following two centuries and a quarter the pace of growth was more rapid, for at the end of Elizabeth's reign it is estimated at some 5,000,000. From this time the rate of growth again declined, and 6,000,000 was not attained until nearly the middle of the eighteenth century.¹

Mere growth of population, however, in lands, large parts of which were uncultivated or poorly cultivated, does not in itself explain the formation of a proletariat. As we traced the beginnings of "capital" to the accumulated ground-rents, so we must trace the beginnings of a mobile wage-earning class to agricultural and industrial changes which detached large numbers of the rural population from their earlier status as small owners or holders of land, or as labourers with some stake in the profits of the farm they helped to work. Agricultural reforms, involving more productive utilisation of land and better business methods, were the chief instruments of change. In Great Britain and upon the Continent the primitive agriculture of feudal

¹ Mr. Cunningham gives the following selected estimates of the population of England and Wales from 1688 onwards (*Growth of English Industry*, vol. iii. p. 935):—

1688 ...	5,500,520	} G. King, in <i>Davenant Works</i> , vol. ii. p. 184.
1700 ...	5,475,000	
1710 ...	5,240,000	} <i>Statistical Journal</i> , vol. xliii. p. 462.
1720 ...	5,565,000	
1730 ...	5,796,000	
1740 ...	6,064,000	
1750 ...	6,467,000	
1760 ...	6,736,000	
1770 ...	7,428,000	
1780 ...	7,928,000	
1790 ...	8,675,000	
1801 ...	8,892,536	
1811 ...	10,114,226	
1821 ...	12,000,237	
1831 ...	13,896,798	
1841 ...	15,914,146	
1851 ...	17,927,609	

society required little "capital," and afforded no play for the "business" spirit. The "landowner" was not much concerned to exact money rents or to get considerable profits out of the land; his tenants and the cottagers or other workers on the farm enjoyed fixity of tenure and of status, tilled the soil according to custom for their livelihood, sharing the produce and living a nearly self-sufficing existence.

Trade in agricultural produce, bringing an increased use of money into the agricultural economy and stimulating owners and tenants to a more careful and intensive cultivation, so as to earn money rents and profits, was the chief channel of the innovating current. It was the Flemish demand for wool, which, coming upon England in the Tudor age when political and social conditions were favourable, afforded a large profitable use of pasture, leading to the enclosure of great quantities of common lands and wastes, and the formation of large pasture farms under new proprietors who, entering into the estates of the decayed baronial families and the confiscated church and guild lands, administered them by their agents in the spirit of a modern rent-receiver. This foreign market for wool, and the growing market for grain afforded by the increase of London and other centres of population and by a certain sporadic export trade, began that process of converting the small yeoman and cottager into the mere wage-earner which reached its fullest pace in the enclosures at the end of the eighteenth and the beginning of the nineteenth centuries. Whereas in the earlier period of this movement it was enclosure for pasture that was the chief propeller, in the later period it was enclosure for tillage.

Though the earlier enclosures involved much injustice in depriving small farmers and labourers of their legal or customary rights in the use of the land, and set afloat a considerable number of landless folk who lived as "rogues and vagabonds," or found a settlement in the towns, the mass of the villagers and rural workers seem to have retained until the eighteenth century some stake, however slender, in the soil, that differentiates them from the pure proletariat which modern capitalism requires as a condition. The simultaneous improvements in tillage, cattle-breeding, and sheep-farming of the eighteenth century

found an England one-third of which still remained in common fields with the slovenly and wasteful cultivation involved in this system. A large part of the country was in the hands of small yeomen, farming their own land, cottagers or crofters, renting small holdings and enjoying not only a share in the common fields, but other rights of pasture, forest, and waste. The wage-work for farmers was partly performed by these, partly by farm-labourers who, if single, "lived in," and, if married, were supplied with a cottage on the farm, and were allowed certain small rights of pasturage for a cow, etc. Again, farmers in many parts of the country let patches of land to sub-tenants, who were primarily engaged in weaving or other domestic industry, and worked on the land in their spare time.

The conditions of enclosure and the new farming changed all this. Scientific rotation of crops, deep cultivation, the use of artificial manures, the increasing employment of machinery, involved a capital outlay and a business administration with which the small farmer could not cope.

The yeomen and other small owners or holders were unable to keep their grip upon the land: the legal and other expenses of acts of enclosure, the cost of fencing and other adjustments ruined many of them, and they were unable to stand up against the large landowners in the defence of doubtful legal or customary rights. The speculative business of growing for markets, with fluctuating prices, was unsuited alike to their means and their intelligence. Many of this class, thus failing to maintain an independent footing, came to recruit the new industrial army of the towns.

The cottagers, crofters, and other labourers were still less able to retain whatever rights custom yielded them in the beneficial use of the land. The old patriarchal farm life, which preserved elements of a profit-sharing character, gave way before the new business pressure, the supplementary wages in kind disappeared or were commuted into a trifling addition to a money-wage which the Poor Law in the later eighteenth century reduced to a degraded level.

The new wheat-farming economy had the further effect of diminishing winter employment. An even more serious consideration was the effect of the introduction of machinery in destroying the supplementary industries which helped the small peasants to pay their money rents, and

made even the labourers greatly independent of the farmer. Though it cannot be supposed that the increased quantity and improved tillage which followed the enclosures, the increase of agricultural land by drainage and occupation of wastes, and the other agricultural improvements, diminish the aggregate demand for labour, they do not seem to have increased it sufficiently to absorb the rapid increase of the rural population; for already in the last decade of the eighteenth century there arose numerous complaints of over-population in rural parts as well as in towns, and this condition notoriously prevailed through the first half of the following century.

The new economy of large farming which had shaken from all ownership or stake in the land the great mass of the rural population, did not then become sufficiently intensive to absorb them as mere wage-earners in the new system. On the other hand, the forces drawing the superfluous labour into the towns or into foreign emigration were not yet fully operative. The Napoleonic war had retarded for a while the development of machine industry and the demand for labour in the industrial towns; transport was too feeble and too expensive for any large stream of emigration to the colonies or to America; the shackles of the Poor Law and the Law of Settlement greatly impaired the mobility of the working population.

It is, however, to this growth of a large rural population deprived of any ownership or security of tenure in the soil, that we must look for the chief explanation of the "proletariat" required for modern capitalism. This class, gradually loosened from its economic and legal settlement upon the soil, was drawn faster and faster into the new industrialism of the factory, the mine, the city shop, and warehouse. There it fused with a town-bred, wage-earning population, representing the journeymen who from the fifteenth century on had been excluded more and more persistently from the guild organisations, and formed a town proletariat which was later reinforced by small masters¹ unable to hold their independence against the closing monopoly of the craft-guilds, and by skilled workmen from

¹ Unwin, *Industrial Organisation in the Sixteenth and Seventeenth Centuries*, ch. viii.

the Continent, religious or political refugees, and in the earlier era of the industrial revolution by large migrations of unskilled labourers from Ireland.

§ 8. In Germany the same origin of an industrial proletariat is plainly traceable. The same survival of the patriarchal farm-family, in which the labourers held a small legal or customary share in the land, cattle, and product of the farm, receiving part of their payment in a share of the harvest, broken up, partly by the agrarian reform of 1811-16, partly by the Schlesian Law of 1845, the enclosure of the common fields, the restriction and gradual disappearance of the labourers' rights, and the subsequent conversion of a class of little profit-sharing farmers into hired labourers. The same compelling forces were operative here as half-a-century earlier in England—the growth of more intensive cultivation, use of machinery, diminished winter employment in agriculture or in supplementary industries.¹

In Italy, France, Belgium, Switzerland, in fact throughout Western Europe, the same general movement has been discernible, its pace determined partly by the growth of population, partly by the size of the estates, and partly by the condition of agricultural arts. The rapid rise of land values in Belgium from the middle of the nineteenth century, together with the decay of village industries, broke up the economy of a distinctively peasant tenure; the same holds alike of the small peasant districts of Central Italy and the larger estates of South Italy. The prevalence of small holdings in these countries and in France, though doubtless retarding the adoption of capitalistic agriculture and the displacement of rural population, has not prevented the constantly increasing flow of a redundant labouring proletariat into town industrial life. Everywhere a farm-labouring class, shaken from its earlier hold upon the land, has been accompanied in its townward trend by the children of the small peasant proprietors who, finding the economic conditions of the old patriarchal farm-family no longer tolerable, seek the better livelihood and larger independence of industrial life.

¹ More work for summer, less for winter, resulted from (a) increased arable, diminished pasture, especially reductions of sheep and flax-growing; (β) machine-threshing in place of the hand-flail; (γ) diminished work in forestry. (Cf. Sombart, ii. 126.)

§ 9. The existence of accumulated wealth, and of a large population dependent on the sale of their labour power could not, however, generate the system of modern industrial capitalism unless the industrial arts had attained a high development. The capitalism of the ancient, and even of the mediæval world, exhibiting a few rare instances of large organisation of workers under a single control, working on wages for the profit of their employers, differed in one important respect from modern industrial capitalism. Whether in the great serf agriculture of the early Roman Empire, or in the mines of Thrace or Sicily, or still earlier in the great building operations of Egypt, Babylon, or India, the element of "fixed" capital was very small, consisting of simple tools or relatively slight and unimportant "machinery": the capital by which employment was afforded consisted of food and raw materials, which were "advanced" to the labourers.

Early accumulations of "capital" consisted in (α) treasure, (β) raw materials and a store of food; or from the standpoint of the individual capitalist, in either α or β .

Though the financial capitalism of the money-lender or banker making loans or advances to farmers and artificers, and the commercial capitalism of merchants giving out raw materials to workers, collecting, purchasing, and marketing their manufactured products, are, as we shall see, important stages in the evolution of the capitalist structure, the business organisation they imply differs essentially from the structure of the great factory, ironworks, railroad, mine, or shipping firm in which modern industrial capitalism finds its typical expression.

The concrete basis of modern industrial capitalism is its large complex structure of "fixed" factors, plant and machinery, the mass of expensive instruments to assist labour in furthering processes of production. The economy of expensive machinery, and the development of indirect or "roundabout" methods of production were the chief instruments in the industrial revolution of manufactures. It is strange how slow this discovery and application of machinery was, and how little progress was made from ancient times up to the middle of the eighteenth century. To those who regard evolution as essentially the product of "accidental variations," the inventions of in-

dustrial machinery may appear attributable to the "chance" which assigns to some ages and countries a large crop of inventive geniuses, and denies it to other ages and countries. A more scientific view of history explains the slow growth of mechanical invention by the presence of factors unfavourable to, and the absence of factors favourable to, the application of human intelligence to definite points of mechanical progress. The vested interests and conservative methods of existing industrial castes and their guild organisations rendered the mediæval city poor soil for the introduction of "labour saving" machinery or other revolutionary experiments: the small dimensions of markets, confined partly by political, partly by natural restrictions, presented no opportunities for the profitable disposal of large outputs. No great "free" labour market existed in the mediæval town; the ambition and the trained capacity of the business organiser had little opportunity of discovering and asserting themselves in an age when education was almost wholly confined to classes who regarded with disdain the useful arts and crafts. In times when the early thirst for gold and the zest of physical inquiry absorbed men of "science" and intellectual ingenuity in "alchemy" and problems of perpetual motion, there was no "conduction" of intelligence along the humbler paths of detailed mechanical improvement in the useful arts.

The force of these unfavourable factors is made more manifest by the fact that single examples of successful capitalist organisation upon a tolerably large scale did actually occur in the later Middle Ages in a few instances, where machinery had come into play. The printing trade showed an early tendency to concentration in large capitalist businesses, attributable to the expensive "fixed" capital in presses. At the end of the fifteenth century we find in Nürnberg a large printing business with twenty-four presses and a hundred employees—type-setters, printers, correctors, binders, etc. So likewise in the fourteenth and fifteenth centuries we find paper-mills in Nürnberg and Basel on a capitalistic basis. In Bologna, as early as 1341, we find accounts of large spinning-mills worked by water-power, and even where no non-human power was available, the comparative expensiveness of the distaffs and looms helped to establish mills in which large bodies of workers were

employed in Genoa and other Italian cities.¹ A large capitalist silk manufacture was formed in Ulm, in which the loom played a distinctive part. In the early development of capitalism in the metal industries, the importance of plant and tools is discernible, and the introduction of the blast-furnaces in the first half of the fifteenth century with the use of coal and of water-power to work stamps, hammers, etc., was a conspicuous advance towards modern conditions.

Difficulties of transport and the slight irregular structure of markets were largely responsible for the retardation of mechanical inventions and capitalistic enterprise in the manufactures. The early beginnings noted above are confined to articles at once costly, portable, and durable; and even for such commodities as books, silk and woollen cloth, and hardware, the narrow limits of a distant market, in which packmen and annual fairs were important links between producer and consumer, offered little encouragement to enterprise.

§ 10. Under such conditions the evolution of the business man, and in particular the application of the organising mind to manufacture, was necessarily slow. It is difficult to realise how modern is the capitalist spirit, the disposition to employ accumulated wealth in furthering production for the sake of profit. The early accumulations of money were animated by no such motive. King, nobles, knightly orders, church, sought wealth in order to spend it on war, personal display, and largesse or almsgiving. Neither to the getting nor the spending of money were any steady rational motive and method applied. The quick attainment of treasure by rapine, extortion, and adventure, its quick squandering in the "unproductive consumption" which such a life involved, marked the spirit of the powerful classes in the Middle Ages. Even when the craving for money spread more widely by the introduction of luxuries into city life, the idea of industry or trade as a regular instrument for obtaining money was slow to make its way. Freebooting, the squeezing of peasants or townsmen by rents, aids, or taxes, or the more romantic, though less productive adventures of treasure-digging and alchemy, had earlier vogue. Only as the lust of

¹ Cf. Sombart, vol. i. p. 405.

accumulation spread among lower and more peaceful sorts of men did money-lending and commerce begin to be recognised as means to get money by the use of money. "Economic Rationalism" is the suggestive name which Sombart gives to the change of spirit from the romantic, adventurous money-hunting of the Middle Ages to the pursuits of modern commercialism. In this process he assigns a very significant part to the discovery and use of technical business methods in account-keeping, the application of exact calculation to Industry. Two names mark the early advances towards modern book-keeping—Leonardo Pisano, whose *Liber Abbaci*, published in 1202, may be said to indicate the beginning of modern industry, coinciding as it did with the Venetian assault upon Constantinople; and Fra Luca, whose completed system of double entry was essential to capitalistic account-keeping. The development of book-keeping, accompanied as it was by a wide general application of rational and mathematical system throughout commerce, in the shape of exact measurement of time and place, forms of contract, land surveying, modern methods of weights and measures, city plans, public accounts, was at once an indispensable tool and an aspect of modern industry. It rationalised business, releasing it from caprice and chance, and giving it a firm objective character from the profit-making standpoint. This was the most definite and direct contribution to industry of the Renaissance, with its emphasis on individual interests, personal responsibility, and free competition—the same spirit which wrought in art, literature, religion, and politics.

Such were the technical conditions for the development of the modern business spirit, the rationale of the *entrepreneur* approximating to the type known as "the economic man." Such a man was first found in the banking and merchant class of the Italian and German cities of the later Middle Ages. Of the great Jacob Fugger it was told that, when a rich competitor, wishful to retire from business in advancing years, approached the old banker with the suggestion—"Let us both retire, now we have led a long career of profit-making, and give others a chance," his reply was that "he had quite a different mind. He wanted to go on making profit as long as he could."

This spirit, then new, and confined to a few merchant-

bankers, was destined to spread until it became the life of modern industry, absorbing the greater part of the intelligence and will-power of the directing classes in the modern world. The warrior-noble, the sportsman, the churchman, the landed-gentleman, who gave example and direction to the feelings, thoughts, and activities of our ancestors in the Middle Ages, had no feeling for "profit," and gave no regular accumulative impulse to the production of wealth. The mental and moral equipment of the *entrepreneur*, required for the conduct of modern capitalist industry, demands a special valuation and outlook upon life, possible to very few even in the more developed industrial cities of the fourteenth and fifteenth centuries. Not until the eighteenth century was his character sufficiently evolved to enable him to take full advantage of the new industrial conditions:¹ not until that period did there arise in all advanced industrial countries large numbers of men who set themselves to administer commercial and manufacturing businesses on a basis of large capital, and to employ large masses of labour for profit.

§ 11. This brief statement of the main conditions essential to modern capitalism enables us to understand England's priority in the adoption of new industrial methods, and the retardation of the Industrial Revolution upon the Continent of Europe and in America; for most of the conditions we have named were better fulfilled for Great Britain than for any other nation by the middle of the eighteenth century.

At that time Great Britain was indeed second to Holland in the existing development of industrial and commercial resources. Adam Smith accounted Holland, "in proportion to the extent of the land and the number of its inhabitants, by far the richest country in Europe," and he ascribed to her "the greatest share of the carrying trade of Europe."²

¹ Hume, *Essays*, vol. ii. p. 57, gives a clear-cut image of the new *entrepreneur*.—"If the employment you give him be lucrative, especially if the profit be attached to every particular exertion of industry, he has gains so often in his eye, that he acquires by degrees a passion for it, and knows no such pleasure as that of seeing the daily increase of his fortune. And that is the reason why trade increases frugality, and why, among merchants, there is the same overplus of misers over prodigals as among the possessors of land there is the contrary."

² *Wealth of Nations*, Book II., chap. v.

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Her command of capital was attested by the low rate of interest for public and private borrowing, and her wage-level was said to be higher than in England.¹ But Great Britain, larger in land and population, and already gaining upon Holland in the possession of capital, the control of colonies and of the carrying trade, was in other respects best fitted for industrial development upon new lines. The absolute amount of capital and of labour available for new industrial enterprise in England was greater than elsewhere. The rise of land-values alike in country and in town, the profits from colonial trade, the beginnings of large businesses at home in banking, brewing, mining, and the woollen trade, etc., afforded larger accumulated funds than were to be found elsewhere. The great capacity of growth exhibited by the working-class population of Great Britain was assisted by freer immigration from Ireland and the Continent, while the earlier and more complete reforms of the agricultural system drove larger numbers into the new industrial centres. This larger supply of capital and labour available for new industries coincided with a great development of the industrial arts, which indeed they served to stimulate, and the discovery of rich deposits of coal and iron in various parts of the country furnished a solid material basis for the new machine economy.

Finally, the minds of British business men were directed more sharply and continuously to the cultivation of business methods in the organisation of capital and labour and the development of markets, and the opportunity of taking a profitable part in this enterprise was open to a larger proportion of the population than was the case elsewhere.

¹ *Wealth of Nations*, Book I., chap. ix.

CHAPTER II.

THE INSTRUMENTS OF CAPITALISM.

- § 1. *Scientific inventions and economic direction.*
- § 2. *The meaning of the term Capital.*
- § 3. *Place of Machinery in Capitalism.*
- § 4. *The financial aspect of Capitalism.*

§ 1. While the conditions laid down in our introductory chapter offer a variety of approaches to the study of capitalism, the efficient causation of the evolutionary process may be found in the application of scientific inventions to the industrial arts, and in the new art of economic direction as expressed in the methods of the modern *entrepreneur*. From these two standpoints we may most profitably study the evolution of the structure and functions of capitalist business. Following the history of the application of new scientific methods, we shall be kept in close touch with the changes of productive processes which give increased importance to "fixed" capital in the form of machinery and power, involving radical changes in the use of labour-power and indirectly in the structure of markets and the life of industrial communities. Following the other route, our study of the changing rationale of business enterprise will yield its primary results in a fuller understanding of the shifting relations between the persons whose intelligences and voluntary efforts contribute—as employers, capitalists,¹ labourers to the several processes of production, and of the capitalist business regarded as an organic co-operation of humanly ordered activities. The latter study would also keep us in closer contact with the financial or account-keeping side of business, that exact register of

¹ Including landowners.

buying and selling in which all economic processes mirror and record themselves in terms of quantity.

The close relation between what, without serious misunderstanding, may be called the objective and the subjective aspects of the industrial order is obvious. A complete study of modern capitalism will be continually engaged in passing from one aspect to the other, and dwelling upon the constant interaction between the concrete industrial changes and the changes of mental direction and disposition which are involved. A new invention of machinery or a new application of chemistry, displacing a domestic system of simple tool labour by a factory system, alters not only the mode of production but the direction of producing power: the quantities, qualities, and the composition of the human efforts involved in the industry are changed.

Every simplification of the study of this complex interaction involves some sacrifice of accuracy, but in every elementary treatise some such sacrifice is required. It is here proposed to pursue as our main line of inquiry the concrete development of capitalism as expressed in the growing part taken by the material forms of capital in the operations of modern business, contenting ourselves with a more general consideration of the subjective aspects of business enterprise as affected by capitalist control.

§ 2. Writers upon Political Economy have brought much metaphysical acumen to bear upon definitions of Capital, and have reached very widely divergent conclusions as to what the term ought to mean, ignoring the clear and fairly consistent meaning the term actually possesses in the business world around them. The business world has indeed two views of Capital, but they are consistent with one another. Abstractly, money or the control of money, sometimes called credit, is Capital. Concretely, capital consists of all forms of marketable matter which embody labour. Land or nature is excluded except for improvements; human powers are excluded as not being matter; commodities in the hands of consumers are excluded because they are no longer marketable. Thus the actual concrete forms of capital are the raw materials of production, including the finished stage of shop goods; and the plant and implements used in the several processes of industry, including the monetary imple-

ments of exchange. Concrete business capital is composed of these and of nothing but these.¹ In taking modern industrial phenomena as the subject of scientific inquiry it is better to accept such terminology as is generally and consistently received by business men, than either to invent new terms or to give a private significance to some accepted term which shall be different from that given by other scientific students, and, if we may judge from past experience, probably inferior in logical exactitude to the current meaning in the business world.

§ 3. The chief material factor in the evolution of Capitalism is machinery. The growing quantity and complexity of machinery applied to purposes of manufacture and conveyance, and to the extractive industries, is the great special fact in the narrative of the expansion of modern industry.

It is therefore to the development and influence of machinery upon industry that we shall chiefly direct our attention, adopting the following method of study. It is first essential to obtain a clear understanding of the structure of industry or "the industrial organism" as a whole, and of its constituent parts, before the new industrial forces had begun to operate. We must then seek to ascertain the laws of the development and application of the new forces to the different departments of industry and the different parts of the industrial world, examining in certain typical machine industries the order and pace of the application of the new machinery and motor to the several processes. Turning our attention again to the industrial organism, we shall strive to ascertain the chief changes that have been brought about in the size and structural character of industry, in the relations of the several parts of the industrial world, of the several trades which constitute industry, of the processes within these trades, of the businesses or units which comprise a trade or a market, and of the units of capital and labour comprising a business. It will then remain to undertake closer studies of certain important special outcomes of

¹ Professor Marshall regards this restricted use of capital as "misleading," rightly urging that "there are many other things which truly perform the services commonly attributed to capital" (*Principles*, Bk. II., chap. iv.). But if we enlarge our definition so as to include all these "other things" we shall be driven to a political economy which shall widely transcend Industry as we now understand the term, and

machinery and factory production. These studies will fall into three classes. (1) The influences of machine-production upon the size of the units of capital, the intensification and limitation of competition, the natural formation of Trusts and other forms of economic monopoly of capital; trade depressions and grave industrial disorders due to discrepancies between individual and social interests in the working of modern methods of production. (2) Effects of machinery upon labour, the quantity and regularity of employment, the character and remuneration of work. (3) Effects upon the industrial classes in the capacity of consumers, the growth of the large industrial town and its influences upon the physical, intellectual, moral life of the community. Lastly, an attempt will be made to summarise the net influences of modern capitalist production in their relation to other social progressive forces, and to indicate the relations between these which seem most conducive to the welfare of a community measured by generally accepted standards of character or happiness.

§ 4. Since every industrial act in a modern community has its monetary counterpart, and its importance is commonly estimated in terms of money, it will be evident that the growth of capitalism might be studied with great advantage in its monetary aspect. Corresponding to the changes in productive methods under mechanical machinery we should find the rapid growth of a complex monetary system reflecting in its international and national character, in its elaborate structure of credit, the leading characteristics which we find in modern productive and distributive industry. The whole industrial movement might be regarded from the financial or monetary point of view. But though such a study would be capable of throwing a flood of light upon the movements of concrete industrial factors at many points, the intellectual difficulties involved in simultaneously following the double study, in constantly passing from the

shall comprehend the whole science and art of life so far as it is concerned with human effort and satisfaction. If it is convenient and justifiable to retain for certain purposes of study the restricted connotation of Industry now in vogue, the confinement of Capital as above to Trade Capital is logically justified. For a fuller treatment of the question of the use of the term Capital in forming a terminology descriptive of the parts of Industry the reader is referred to Chapter VII.

more concrete to the more abstract contemplation of industrial phenomena, would tax the mental agility of students too severely, and would greatly diminish the chance of a substantially accurate understanding of either aspect of modern industry. We shall therefore in this study devote our attention chiefly to the concrete aspect of capitalism, describing in a single chapter the main outlines of the recent development of the financial mechanism and the place it occupies in the structure and working of modern capitalism.

CHAPTER III.

THE STRUCTURE OF INDUSTRY BEFORE MACHINERY.

- § 1. *Dimensions of International Commerce in early Eighteenth Century.*
- § 2. *Natural Barriers to International Trade.*
- § 3. *Political, Pseudo-economic, and Economic Barriers—Protective Theory and Practice.*
- § 4. *Nature of International Trade.*
- § 5. *Size, Structure, Relations of the several Industries.*
- § 6. *Slight Extent of Local Specialisation.*
- § 7. *Nature and Conditions of Specialised Industry.*
- § 8. *Structure of the Market.*
- § 9. *Combined Agriculture and Manufacture.*
- § 10. *Relations between Processes in a Manufacture.*
- § 11. *Structure of the Domestic Business: Early Stages of Transition.*
- § 12. *Beginnings of Concentrated Industry and the Factory.*
- § 13. *Limitations in Size and Application of Capital—Merchant Capitalism.*

§ 1. In order to get some clear understanding of the laws of the operation of the new industrial forces which prevail under machine-production it is first essential to know rightly the structure and functional character of the "industrial organism" upon which they were destined to act. In order to build up a clear conception of industry it is possible to take either of two modes of inquiry. Taking as the primary cell or unit that combination of labour and capital under a single control for a single industrial purpose which is termed a Business, we may examine the structure and life of the Business, then proceed to discover how it stands related to other businesses so as to form a Market, and, finally, how the

several Markets are related locally, nationally, internationally so as to yield the complex structure of Industry as a whole. Or reversely, we may take Industry as a whole, the Industrial Organism as it exists at any given time, consider the nature and extent of the cohesion existing between its several parts, and, further, resolving these parts into their constituent elements, gain a close understanding of the extent to which differentiation of industrial functions has been carried in the several divisions.

Although in any sociological inquiry these two methods are equally valid, or, more strictly speaking, are equally balanced in virtues and defects, the latter method is here to be preferred, because by the order of its descent from the whole to the constituent parts it brings out more definitely the slight cohesiveness and integration of industry beyond the national limits, and serves to emphasise those qualities of nationalism and narrow localism which mark the character of earlier eighteenth century industry. We are thus enabled better to recognise the nature and scope of the work wrought by the modern industrial forces which are the central object of study.

While the Market or the Trade is less and less determined or confined by national or other political boundaries in modern times, and nationalism is therefore a factor of diminishing importance in the modern science of economics, the paramount domination of politics over large commerce in the last century, acting in co-operation with other racial and national forces, obliges any just analysis of eighteenth century industry to give clear and early emphasis to the slight character of the commercial interdependency among nations. The degree of importance which statesmen and economists attached to this foreign commerce as compared with home trade, and the large part it played in the discussion and determination of public conduct, have given it a prominence in written history far beyond its real value.¹

It is true that through the Middle Ages a succession of European nations rose to eminence by the development of navigation and international trade, Italy, Portugal, Spain, France, Holland, and England; but neither in size nor in

¹ A. Smith, *Wealth of Nations*, Bk. iv., chap. i.