



Capitalism is the exchange—for private gain and at market-set prices—of labor, land, and goods. Capitalism is seen in all periods of history, in both the East and West, but was limited by large subsistence and religious/state sectors for most of history, and by communist regimes, with state control of the economy, in the past century. Capitalism has brought great material progress, but also periodic crises and inequality.

Capitalism is a system of economic activity in which goods and services—including labor—are bought and sold at prices determined by markets (that is, at prices resulting from interactions among large numbers of buyers and sellers). This is usually contrasted with subsistence production, where most production is consumed by producers and their families or immediate neighbors, and thus has no price; or socialist production, in which the government sets the prices of goods and services, and producers do not control the sale of their products.

Other noncapitalist systems exist as well. Throughout history many societies had command economies, where states or elites directed producers (often slaves) to provide them with goods and services. Another distinct system is guild production, where groups of craftsmen making the same products limit production and fix the characteristics and prices for all goods produced by guild members, rather than allow individual producers to compete.

Capitalism in World History

Much confusion has arisen regarding the onset of capitalism in history, because capitalism has always

been present alongside other kinds of economic activity. For example, in ancient Greece and Rome, while most rural production was for subsistence and the majority of production for the elites was command production by slave labor, there were also extensive markets in which land, slaves, luxury goods, wine, and grain were sold for market prices. In medieval Europe, guild production by skilled craftsmen existed alongside markets for unskilled labor and for most agricultural products. Even as far back as the Assyrian Empire in 2000 BCE, which was mainly a command economy, we have cuneiform records from merchants on the borders of the empire detailing their negotiations to obtain the best prices and profits in their long-distance trade.

Nor was capitalism simply a characteristic of Western societies. Imperial China had extensive markets for land, labor, and most agricultural and manufactured products from at least the early years of the Ming dynasty in the fifteenth century, and seems to have had considerable market exchange by overseas merchants since at least the Southern Song dynasty in the twelfth century. On a more limited scale, the Silk Roads (the network of roads and sea routes that linked Europe, Persia, India, central and Southeast Asia, and China) facilitated capitalist exchange among merchants and local trade centers all the way from the city of Xi'an in China to the Roman Empire as early as the first century BCE.

In sum, we find people conducting capitalist activities in almost every society, at every period in history. Nonetheless, it is only from the eighteenth century onward that we find societies in which a

Money is better than poverty, if only for financial reasons. • Woody Allen (b. 1935)

majority of the population depends almost entirely on the market to meet their basic needs.

Some historians identify earlier periods, in the sixteenth and seventeenth centuries, as a time of “mercantile capitalism,” believing that it was mainly merchants who depended on capitalist activities for their livelihood at this time. It is certainly true that in these centuries merchants in Europe, China, and the Middle East became richer and more numerous through the expanding Atlantic and Europe/Asia trade of this era. In the sixteenth century for the first time capitalist trade became global, as trade between Mexico and the Philippines, Asia and Europe, and Europe and the Americas created world-spanning circuits of exchange. Everything from gold and silver to horses and furs, silk and cotton cloth, rice and wheat, ivory and indigo, coffee and tea became globally traded goods.

A host of other groups, however, were also heavily involved in market activities. The great landlords of Britain, Prussia, and Turkey all raised food from their estates to sell to cities along the North Sea and the Mediterranean. So too did the landlords of Italy and southern France, and the middling farmers of northern France, Britain, and Holland, as well as the wine growers of France, Germany, and Italy. In addition, vast numbers of workers and craftsmen in the countryside—agricultural day laborers, building laborers, millers, blacksmiths, masons, bakers, spinners and weavers of cotton and wool, shoemakers, tailors, silk and linen producers—depended on the market for their livelihood.

In China, the sixteenth and seventeenth centuries saw an explosion of family and village production of rice, cotton, cloth, silk, ceramics, horses, paper, soy products, and even fertilizers for market sale, as well as more refined luxury goods. Indian and Southeast Asian producers became major exporters of printed cotton cloth and spices, and of exotic woods, gems, and dyes as well. The spread of capitalist markets governed prices in trading centers around the world, as gold and silver mined in the Americas was sold to British and Dutch merchants, who in turn used it to buy cotton, tea, silk, and ceramics from India and China.

Modern Capitalism

The shift from agricultural societies (in which energy came from wood, wind, water, and animal power, vehicles were built mainly from wood, and large buildings were made from stone), to industrial societies (in which energy came mainly from oil, gas, and coal and vehicles and large buildings were built mainly from iron and steel), was a momentous change in human history. Several social theorists have identified this shift with the emergence of a new form of capitalist activity, called “industrial” or “modern” capitalism.

Karl Marx, a German economist, wrote in his great work *Das Kapital* (published in 1848) that modern capitalism was founded on production that employed wage labor. Marx observed that in ancient Greece and Rome most economic activity was carried out by slave labor, and that from the Middle Ages up through the eighteenth century, most urban and rural production was carried out by independent or guild craftsmen in their own workshops, and by peasant farmers on their own or rented land. Wage labor may have been a substantial part of the economy, but only a minority of workers labored exclusively for others for a cash wage. With the onset of mechanized factories, and even more with the expansion of cities relative to the countryside, more and more workers depended entirely on the wages they could earn by working for others.

Marx argued that in modern, wage-based capitalism, when workers were dependent on being hired to survive, labor became simply another commodity that could be bought at a market price. Marx believed this made it possible for factory and farm owners to be ruthlessly efficient in their allocation of labor. Workers would suffer, but the system itself would benefit from this efficiency to make factory and farm owners increasingly rich. Indeed, Marx forecast a situation in which the number of landless workers for hire—the “proletariat”—would increase and their condition worsen, while the factory owners, farm owners, bankers, and other owners of valuable property or “capital” would grow richer but fewer as



competition weeded out the weakest among them. Eventually, the capitalists would be unable to hold off a revolt of the proletariat, who would establish a communist society in which labor could no longer be exploited because the government would own all property and employ all of the people.

Another German social theorist, Max Weber, who wrote in the early twentieth century, also believed that modern capitalism was distinctive, but focused on the owners of capital rather than the workers. Weber suggested that prior to the eighteenth century, merchants, landowners, and producers of luxury goods acquired money through capitalist market activity, but mainly with the goal of spending their wealth on luxurious lifestyles or to support a large retinue. These were the ways that people displayed their success and gained admiration. But with the emergence of societies in which large numbers of people were committed to a “Protestant Ethic” of a sober, frugal, disciplined, and hard-working life, the mark of success became not conspicuous consumption or support of numerous retainers but the creation of larger and larger enterprises through the reinvestment of profits in expanded businesses. “Modern capitalism” was thus distinctive in its goals and its outcome: the creation of ever-larger business enterprises and nation- or world-spanning companies with ever-larger numbers of employees.

In China and Japan too, from the eighteenth and nineteenth centuries onward, social critics commented upon the increased obsession with acquiring material goods and piling up wealth, to the exclusion of interest in art, painstaking craftsmanship, philosophy, and social harmony. Around the world “capitalism” became a byword for selfish striving, the impoverishment of agricultural and factory workers who depended on others for employment, the growing role of large industrial, mining, farming, and ranching enterprises, and the acquisition of boundless wealth by a new class of businessmen, bankers, and property owners.

Yet the progress of capitalism was not steady and smooth. As more and more workers and property owners became wholly dependent on capitalist

market activity, they became more prone to the cycles of booms and busts that occur in all capitalist markets. As noted in the introductory paragraph, the hallmark of capitalism is the buying and selling of commodities at prices set by the negotiations of buyers and sellers. Yet there is no certainty that these negotiations will always result in prices that exactly balance supply and demand. During periods of economic expansion buyers and sellers often become overly optimistic, and buyers offer higher and higher prices for goods, even borrowing to buy and invest. Eventually, buyers become overextended, demand falls off, the prices of goods start to stagnate or decline, and markets contract, going into recession. These business cycles seem to be an inevitable part of capitalism, and have been seen from the onset of global capitalism in the sixteenth century. Some of these cycles have produced economic downswings so severe—especially the global Great Depression of the 1930s—that it seemed that Marx’s prediction for the demise of capitalism was at hand.

By the second half of the twentieth century, however, it was clear that capitalism had more flexibility and resilience than either Marx or Weber had realized. In Europe and North America, then in Japan and Asia’s Pacific Rim, then in China, India, and Latin America, small new companies were continually created that grew to become major global enterprises, while older industrial giants that had once been emblems of capitalism—such as General Motors, AT&T, British Leyland, McDonnell-Douglas, Digital Equipment Corp, Polaroid—either radically downsized or disappeared. In addition, factory workers gained wages sufficient to support their own considerable consumption, while numerous skilled workers and entrepreneurs, including doctors and lawyers, realtors and athletes, writers and screen stars, became quite wealthy.

Capitalism and Modern Economic Growth

While the growth of large-scale enterprises and the expansion of wage labor to include a majority



People have conducted capitalist activities, across land and sea, in almost every society and at every period of history. Here, a carpet dealer hangs rugs large and small outside his shop in Istanbul, Turkey.

of workers—the hallmarks of modern capitalism—clearly occurred in association with a dramatic rise in living standards, the connection between capitalist systems and modern economic growth remains controversial. Did the extension of capitalist market relations throughout society and across the world—including imperial expansion whereby European governments took control of many African, Asian, and Latin American societies in order to secure natural resources and consumers for European producers—provide the impetus for the development of machines, factories, and modern industrial growth? Or did the invention of steam-powered machines, the development of factories, and growing wealth lead to the global spread of capitalist relationships?

The answer, as with many complex historical puzzles, is that both are partly true. There have been many occasions in history when the extension of capitalist relationships, driven by a growing population and increased international trade, have stimulated new production techniques and created greater wealth. From the Assyrian Empire, which became one of the first empires to greatly expand regional trade, to Song China, to Venice in the fifteenth century, Spain in the sixteenth century, Holland in the seventeenth, and Britain in the eighteenth, there have been many “efflorescences” in which countries entered a golden age of prosperity, cosmopolitan sophistication, and accomplishment. These usually arose because expanding trade

brought new ideas and opportunities that led to the acquisition of new lands or the discovery of new processes or techniques for more productive agriculture or manufacturing.

Thus Song China produced unprecedented amounts of iron from new ceramic-lined reverberant furnaces; Venice produced glass goods and arsenals of ships and weapons; and Spain produced Europe's finest steel armor and swords while Spanish and Portuguese pioneers in oceanic navigation opened routes to the Americas. Holland's extensive trade led to innovations in warehousing, finance, ship design, and the use of windmills, and Britain's Atlantic trade helped spur improvements in iron-making, cotton spinning, and agriculture that made it the richest country in the world.

Each of these economic flowerings except Britain's, however, was temporary. For a century or two, these societies enjoyed expanded markets, growing wealth, and vigorous innovation. Yet these bursts of prosperity waned, as competitors learned similar techniques, rising population diluted the earlier gains, and international trade patterns shifted, costing the leaders their advantages. Such market-led efflorescence produced new ideas and much new wealth, but they did not produce an institutionalized method of creating ever-more-productive innovations. Capitalism, by itself, thus could not fully launch modern, ever-accelerating economic growth. At the same time there is no doubt that the spread of modern industry and factory production had the effect of increasing capitalist relationships across society and the world.

Although from ancient Assyria, Greece, and Rome to imperial China and Golden Age Holland many individuals and groups engaged in capitalist activities, it remained true that in all these societies most peasants and farmers—who still constituted three-quarters or more of all pre-industrial societies—produced much of their own food. Even cotton spinners and weavers, silk cocoon growers, cotton farmers, and others who mainly produced goods for market also had some land on which they grew food for their families. The creation of societies in which a vast majority of the population depended entirely

on market buying and selling of goods and labor to meet their daily needs for food, clothing, and shelter is strictly a modern phenomenon, starting in the eighteenth century.

The creation of such capitalist societies depended on innovations in agricultural production that allowed farmers to produce far more food for workers, and on innovations in production that allowed vast numbers of workers to produce inexpensive goods that could be widely sold. These innovations arrived together in eighteenth-century Britain as the result of the harnessing of empirical science to agricultural and industrial techniques. While the hallmark of this shift was the invention and improvement of the steam engine, and its application to mining, agriculture, construction, and transport, the steam engine was just part of a cluster of British and American innovations that included new uses of roller and rotary technology to produce cotton yarn; to make mechanical saws and lathes to cut wood; to create cheap wrought iron and steel; and even to print books and newspapers. There were also changes in land use and cropping patterns, improvements in transportation that allowed fertilizers to travel to farmers' fields from hundreds or thousands of miles away, and for farmers in turn to send food to markets at similar distances.

Innovations in steam power and iron technology also enabled Britain and other European nations to build gunboats and railroads that they used to open up and subdue countries in Asia, Africa, and the Middle East and force them to engage in trade with Europeans. New production and transport techniques created global markets for a wide range of goods, and turned peasants and craftsmen into farm laborers and factory and retail workers around the world, a process that began in the eighteenth century but is still continuing today.

The Future of Capitalism

A future of universal capitalism is exciting to some, but horrifying to others. Capitalism can be a brutally competitive system, creating depressing inequality and panic-inducing boom-and-bust cycles. Indeed,



Opening to the world economy in 1978–1979 after nearly thirty years of anti-capitalist leadership, the Chinese marketplace has changed to reflect the growing consumerism of an urban population, especially evident during the Christmas holiday shopping season. Philip Baguet Collection.

in order to reduce the worst consequences of capitalist relations, governments have had to intervene with regulatory and judicial systems that enforce contracts, protect laborers, regulate competition, control the supply of money and credit, redistribute income, offer medical care and pensions, subsidize transportation, limit pollution, and provide sanitation and planning for cities.

Much of modern political debate and contention is over the degree to which government should step in with such activities to respond to the adverse consequences of capitalism, or let markets self-correct and self-regulate. Karl Marx and his followers—including Vladimir Ilyich Lenin in Russia, Mao Zedong in China, and Fidel Castro in Cuba—believed that the logical consequence of the need for government to limit the excesses of capitalism was to abolish those market relations altogether, and have the government own all property, provide all jobs, set all prices, and regulate all economic activity. Only in that way, under a communist system, could prosperity for all workers be achieved.

Yet Austrian, British, and American economists, including Friedrich Hayek, Joseph Schumpeter, Alfred Marshall, John Maynard Keynes, and Milton Friedman, argued that free markets were the best institutions for promoting economic growth, and

that sensible government policy should seek to help spread the benefits of market growth while maintaining effective market institutions. Schumpeter even lauded the “creative destruction” of business cycles that paved the way for more productive new producers to replace inefficient or obsolete businesses. Protecting the makers of buggy whips when automobiles were replacing horse carriages was no way to promote economic progress.

The evidence of global history, so far, tends to support the capitalist group. Although capitalist societies have had greater inequality and periodic recessions and depressions, the workers in such societies have still enjoyed far greater economic growth and prosperity than their counterparts in communist societies. Indeed, virtually all of the major societies that adopted communism in the twentieth century have abandoned it as an economic system and restored capitalist market relations.

Still, many argue that global capitalism remains a source of extreme inequality and disadvantage to the developing countries of Latin America, Africa, the Middle East, and South Asia, most of whom also had their economies and politics distorted by long periods of European colonial rule. These regions suffered severely during the economic crises of the 1990s and early 2000s. In the “Great Global

Recession” that began in 2007 (and from which many countries have yet to recover fully in early 2010) developing countries that had recently shifted toward more capitalist practices—including Russia, Brazil, China, and India—recovered most rapidly, suggesting that capitalism was now working well in these countries, while excessive financial speculation or deregulation undermined economic stability in the more developed regions of North American and western Europe.

Critics of capitalism worry that government action cannot forever serve as a palliative for capitalism’s competitive and cyclical tendencies, and look forward to a future utopia in which economic output will be so fruitful and so widely shared that market-set prices and market-set incomes will no longer dominate who obtains what goods and services. If that day comes, people will look back at capitalism as a system that was only helpful in promoting growth during an unpleasant period of scarcity and international competition for scarce goods.

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See also Economic Cycles; Economic Growth; Smith, Adam

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