



The Concept and History of Capitalism

Philosophy of Economics

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Contents

1. **The Concept of Capitalism**
2. Types of Capitalism
3. What is capitalism?

Is “capitalism” a useful term?

[In an article about decisions made by the Texas Board of Education:]

In economics, the revisions add Milton Friedman and Friedrich von Hayek, two champions of free-market economic theory, among the usual list of economists to be studied, like Adam Smith, Karl Marx and John Maynard Keynes. **They also replaced the word “capitalism” throughout their texts with the “free-enterprise system.”**

“Let’s face it, capitalism does have a negative connotation,” said one conservative member, Terri Leo. “You know, ‘capitalist pig!’ ”

Source: <https://www.nytimes.com/2010/03/13/education/13texas.html?hp>

Is “capitalism” a useful term?

[...] we do not believe the term capitalism to be a useful one for the purposes of comparative economic or political analysis. **By focusing on the ownership and accumulation of capital, this term distracts from the characteristics of societies which are more important in determining their economic development and the extent of inequality.** For example, both Uzbekistan and modern Switzerland have private ownership of capital, but these societies have little in common in terms of prosperity and inequality because the nature of their economic and political institutions differs so sharply. In fact, Uzbekistan’s capitalist economy has more in common with avowedly noncapitalist North Korea than Switzerland [...].

Acemoglu, Daron, and James A. Robinson. “The Rise and Decline of General Laws of Capitalism.” *Journal of Economic Perspectives* 29, no. 1 (2015): 3–28, at 4.

Problems with the Concept of Capitalism

- **Problem 1:** Capitalism is a **politicised** concept—it is not neutral
- **Problem 2:** Capitalism is **not a useful** concept—it does not capture what is relevantly similar
- **Problem 3:** Capitalism's nature **has changed over time**—is there anything that unifies the different types of capitalism we see across time and countries?
- **Problem 4:** The concept of capitalism is **used ambiguously** by different people

- What might other problems be with the concept of capitalism?

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Fulcher: Stages of Capitalism

- Merchant Capitalism (17th/18th c.)
 - ❑ use of capital, global trade, merchants heavily invest capital, proto-factory production
 - ❑ but: no free markets, limited role of banks and state, limited overall scale
- Industrial Capitalism (18th/19th c.)
 - ❑ Industrialisation, urbanisation, rise of wage labour, free trade
 - ❑ early 19th c.: **managed capitalism** (heavy state-involvement)
- Financial Capitalism (20th/21st c.)
 - ❑ (Extreme) globalisation, limited state involvement, increasing commodification

Other categorisations are possible. (Also: think across countries, not just across time.)

Fulcher's Five Features of Capitalism

1. The investment of money to make more money as a mode of financing production
2. Exploitation of wage labour
3. Mediation of production and consumption by markets; general reliance on markets
4. Competition, but also tendency towards market capture
5. Market fluctuation and financial speculation

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Defining Capitalism

We must distinguish between

- **Core elements** of capitalism—something could not be capitalism without having this feature
- **Paradigm features** of capitalism—most forms of capitalism will have most of these features, but they might deviate in some
- **Subtypes** of capitalism—features which are relevant to a recognizable subtype of capitalism, but play no role in other subtypes
- **Contingent features** of capitalism—while capitalism is often accompanied by these features, this is merely an accident

An Analogy: Democracy

Defining democracy:

- **Core elements** of democracy: regular, free elections of legislature
- **Paradigm features** of democracy: freedom of speech and association; separation of powers; constitutional limits on power (etc.); widespread franchise
- **Subtypes** of democracy: representative democracy; direct democracy (etc.)
- **Contingent features** of democracy: a tolerant society; civil liberties; a competitive party system; political pluralism

Exercise

1. What might potential elements in a definition of capitalism be?
2. How can we sort these elements into the four categories?



Summary

- ❖ Capitalism is not an immediately clear concept—we can even doubt whether it is neutral or useful
- ❖ There have been different types of capitalism—in particular, mercantile, industrial, managed, and financial capitalism
- ❖ We must distinguish between core elements, paradigm features, subtypes, and contingent features of capitalism
- ❖ (At least) paradigm features: private ownership, centrality of markets, profit motive, wage labour system

Thank you!

What is capitalism?

I propose a working definition of *capitalism* that emphasizes **decentralization, commodification, and accumulation** as basic characteristics.

First, it is essential that **individual and collective actors have rights**, usually property rights, that enable them to make economic decisions in a relatively autonomous and decentralized way.

Second, **markets serve as the main mechanisms** of allocation and coordination; commodification permeates capitalism in many ways, including labor.

Third, **capital is central**, which means utilizing resources for present investment in expectation of future higher gains, accepting credit in addition to savings and earnings as sources of investment funds, dealing with uncertainty and risk, and maintaining profit and accumulation as goals. (Kocka 2016, 21)

What is capitalism?

There are two key features that make an economy capitalist.

1. Most production of goods and services is undertaken by privately owned companies, which produce and sell their output in hopes of making a profit. This is called **PRODUCTION FOR PROFIT**.
2. Most work in the economy is performed by people who do not own their company or their output, but are hired by someone else to work in return for a money wage or salary. This is called **WAGE LABOUR**.

(Stanford/Biddle 2008, 34)

What is capitalism?

[C]apitalism, when fully developed, is best understood as a system of generalized commodity production driven by the pursuit of profit and based on free wage labor [...].

(Coates 2015, 4)