XI

The Emergence of Capitalism

IN WESTERN EUROPE in the two hundred and fifty years between the turn of the sixteenth century and the beginning of the Industrial Revolution in the second half of the eighteenth century, there was, notably in England and France, a progressive strengthening of the nation-state. This was in close descent from the traditional feudal exercise of power, with its source in landed property and personality and its reliance on condign power as well as on the compensatory resources deriving from the property and on the conditioned response to the sovereign with his frequent claim to divine right. But these years also saw the emergence, in varying importance, of a significant merchant class — the rise from yet earlier origins of merchant capitalism, as it has come to be known.[1]

This too can be seen, and is advantageously so seen, as a shift in the sources of power and in the instruments of its

[1] A development that was greatly diverse both as to the types of merchants involved and in the countries and cities where it occurred. On this I would commend the prodigious studies of the French historian Fernand Braudel, in particular *The Wheels of Commerce* (New York: Harper and Row, 1983).

enforcement. Merchant capitalism had its primary source of power in property, although this was no longer land but capital, notably goods for sale and the silver and gold for procuring them. Meanwhile, personality diminished in importance; organization became more evident. Compensatory power increased greatly; condign enforcement declined in use, although it was still available, and there was a limited but interesting exercise of conditioned power with portent for the future. It is one of the legitimate claims of capitalism that it substitutes more civilized compensatory reward for condign punishment; this was certainly true of merchant capitalism, at least as compared with the feudal exercise of power.

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The names of the feudal lords, princes, and kings were much celebrated in their day; some still are. French and English history is a recital of their personal traits, eccentricities, and excesses and of the military campaigns by which they enlarged or defended the landed property that was the primary source of their power. The merchants, in contrast, were largely anonymous; they were not individuals but a class. Where one did emerge to popular recognition, he was, significantly, called a merchant prince.[2] He had acquired some of the feudal emphasis on personality. Certain personal qualifications — financial and commercial acumen, willingness to take risk, ability in assessing it, facility in recognizing opportunity, geographical and maritime knowledge — were important for success. But they were not adventitious and unique; they could be acquired and were. And they did not strongly suggest a capacity for leadership and command.

[2] Bankers, such as Jakob Fugger (1459–1525), were accorded similar feudal esteem.

The property that was the prime source of merchant power consisted of working capital — goods being transported or held for sale — as well as the ships that brought it to the merchants and the places of business in which it was sold.[3]

The merchants' capital also, and most significantly, included specie and in later times bank deposits. These were their claim on goods in trade. The aggregate of all the property of the merchant class was the source of its compensatory power. This won the submission of suppliers and servants and also, on occasion, of the feudal lords who tended to be notoriously in need of ready cash.[4] Property also accorded the merchants prestige in the community, which, in turn, won the conditioned submission that goes to wealth.

The primary exercise of power by the merchant capitalist was over the workers, artisans, and craftsmen whence came the goods, and over the quality and price of the goods that he sold, the most important being cloth,[5] and thus over the consumers who needed and purchased them. This, on first glance, was a relatively mild and benign exercise of power, for it left to both suppliers and consumers the alternative

[3] In the vicinity of Venice, Paris, and other cities, the merchants also came into possession of substantial landed estates. These were, it seems fairly certain, subsidiary to their main business property.

[4] The discovery of America with the resulting large flow of precious metals to Europe — silver, in the main, and not gold as commonly assumed — has frequently been thought a decisive new source of capital and a factor in the rise of merchant capitalism. It was not unimportant, but it reflects a common misunderstanding of the nature of capital. The inflow of metal provided an abundant means of exchange. It set in motion an enduring inflation, which may well have been encouraging to trade. For the individual merchant it was a claim on the capital of others. It did not, however, directly enlarge the total stock of goods in process of manufacture or being held for sale or the tools and equipment for manufacture or the facilities for transport or sale. These, then as now, were the real capital.

[5] With food and shelter, one of the three universally needed consumption goods of the age.

of not producing or buying or of seeking out other sellers or buyers. However, need for a market and a livelihood and for a product can be compelling, and it was a prime feature of merchant capitalism that it provided careful safeguards against a promiscuous resort to alternative buyers or sources of supply. The power of any merchant could be sadly reduced were another to offer more for a product of given quality or offer to sell one for less. Competition was seriously adverse to merchant success. To ensure against it, organization became significant as a source of power.

The great merchants lived in relatively close urban association. It was a simple and obvious step to enhance their compensatory power by a close regulation of quality and prices both when buying and selling. In earlier times this had been the service of the merchant guilds, but by this time they were somewhat in decline in Western Europe. Craft guilds controlling the prices and quality of goods by and for sellers had invaded and challenged their power. Again the symmetrical response. But the merchants had another major source of support and a major defense against competition. This was the emerging state, which protected them against competition, especially from foreign sources, and undertook the regulation of trade in general. Organization, that of the state, thus became a source of power alongside property; and its service to merchant capitalism was deemed an act of public virtue. This social conditioning was the service of the mercantilist philosophers, on which, presently, I will also have a word. Unrestricted competition did not achieve its reputation as a major public good until the different circumstances of manufacturers following the Industrial Revolution made freedom from craft-guild and government restraint a preferable alternative. Then, as ever, the ideas — the social conditioning — were brought abreast of the need.

3

In the great merchant cities — Venice, Bruges, Amsterdam in considerable measure, and others — the merchant interest and that of the government of the city were coterminous. There could be no serious tension between the merchants and the state; essentially they were the same. Elsewhere the merchants were in frequently uneasy association with the feudal ruling classes, which is to say merchant property as a source of power was in competition with that deriving extensively from landed property. The compensatory power of the merchants was in continuing competition with the conditioned power that associated government as a matter of course with the landed property of the feudal classes. This latter expression of conditioned power was exceedingly durable. In England until comparatively recent times, the landed aristocracy was referred to, automatically, as the ruling class; theirs was the conditioned right to power. Merchants, in contrast, suffered the derogatory and occasionally derisory reference of being "in trade." There was, as well, an uneasy association between the merchants and the Church. Even in Catholic cities the merchants were, on occasion, casual about the social conditioning of the Church and on some matters, such as the taking of interest, openly adverse. Also the merchant cities and cities with large merchant enclaves such as London and Amsterdam were, partly because of the lenient attitude toward religious conditioning, extensively a haven for Jews, Huguenots, and diverse recusants.[6]

[6] There was, as well, a progressive reduction in the scope of religious exercise. On this R. H. Tawney has a notable comment: ". . . side by side with the expansion of trade and the rise of new classes to political power . . . was the contraction of the territory within which the writ of religion was conceived to run. The criticism which dismisses the concern of Churches with economic relations and social organization as a modern innovation finds little support in past history. What requires explanation is not the view that these matters are part of the province of religion, but the view that they are not." *Religion and the Rise of Capitalism* (Harmondsworth, Eng.: Penguin Books, 1972), p. 272.

The late sixteenth, seventeenth, and early eighteenth centuries were, nonetheless, a time of steadily growing power for the merchants as compared with their rival claimants. Capital as a form of property was a less visible but a more mobile and adaptable source of power than land. And from it and the associated organization came a new and effective exercise of conditioned power.

This was the contribution of the mercantilist philosophers earlier mentioned. Thomas Mun, himself a London merchant, in his posthumous *Discourse on England's Treasure by Forraign Trade* (1664), Sir James Steuart, the last of the great British mercantilists, Jean Baptiste Colbert (1619–1683) at the more practical level in France, and others all strongly identified the merchant's interest in increasing his own stock of precious metals with that of the nation-state; what served the merchant's interest served the wealth and power of the state. Nothing else was so important. From this belief, in turn, came a policy of encouraging exports, taxing, restricting, or otherwise discouraging imports and therewith foreign competition[7] and (notably in the case of Colbert) providing detailed regulation of other aspects of trade. In this fashion the needs of the merchants were reflected through social conditioning in the approved policies of the state. It is not to be supposed that many read or knew of the mercantilist doctrine at the time.

[7] Other mercantilists, especially Sir William Petty (1623–1687) and Sir Dudley North (1641–1691), relented on protection and argued the possibilities and advantages of uninhibited trade.

And it was undoubtedly a slight thing when compared with the social conditioning that came to the support of industrial capitalism in later years. But it was highly influential with those whose actions — regulation of foreign trade and of imports in particular, grants of exclusive trading areas, maintenance of ports and harbors — served the merchants' power and interest.

4

For conduct of business in a city or a limited trading area, the merchant's enterprise was, in greater or less degree of organization, sufficient. For overseas operations — the procurement and sale of goods at a great distance in primitive or culturally different lands — something more formidable was required. Accordingly, at the beginning of the seventeenth century there came into being the greatest organizational achievement of merchant capitalism, the chartered companies. Originally temporary groupings of merchants for a particular voyage or expedition, these companies soon developed a solid and sophisticated structure. In accordance with mercantilist doctrine, they were granted a monopoly of the trade in the regions into which they entered. They were also endowed with something approaching immortality. The East India Company — the Governor and Company of Merchants of London, trading into the East Indies — was chartered by Elizabeth I on the last day of the year 1600 and survived for the next 274 years; the Hudson's Bay Company, more imaginatively styled the Governor and Company of Adventurers of England, trading into Hudson's Bay, received its charter from Charles II in 1670 and, of course, still exists. It is one of the weaknesses of personality as a source of power that it is subject to the limitations of

the human life span. This the Church had overcome through organization. Now the chartered company, and later the corporation, overcame this considerable defect by the same means. Although in the history of the great chartered companies the names of a few persons emerge — John Smith of the London Company and the Virginia settlement, Robert Clive and Warren Hastings of the East India Company — this was the beginning of a movement, long to be continued under capitalism, away from personality as a source of power. The final manifestation would be in the modern corporation, the lineal descendant of the chartered company.

Chartered companies appeared because stronger organization was necessary as a source of continuing power. The merchants also needed access to condign measures in order to protect shipping, to pacify and otherwise occupy the trading areas into which they moved (and, of course, to resist the intrusion of competing companies). Thus endowed with access to condign power, including the right to hire, deploy, and use soldiery, the chartered companies had the principal attributes of a nation-state. And this in India, the Dutch East Indies, and the vast reaches of northern North America they became.

It was their singular advantage that, almost everywhere, they moved into what rather precisely could be called a power vacuum. The term, though rarely if ever defined in modern usage, aptly describes a community or territory where all the sources of power — effective personality, property, and organization — are feeble or absent, as also, in consequence, are all the instruments of its enforcement. This accurately describes the East Indies and the subarctic reaches of North America as they were invaded by the trading companies. In northern America there was, in these terms, nearly nothing; in the East Indies there were occasional personalities, some property, and some slight organization. But these, and especially the organization, were weak compared with those possessed by the Europeans, and so were the resulting instruments of enforcement.

In time, and more specifically in the last century, the trading companies gave way, in their overseas operations, to formal extensions of the originating state. Company operations became colonies; power now traced to the colonial government and its revenue resources and, on occasion, as in the later example of Cecil Rhodes in Africa, to a particularly expressive personality. Or, as in the important case of China, nominal independence was subject to the power deriving from the property and organization of the merchants who had access, as in the Opium Wars, to the condign power of their country of origin. With these changes the merchant power was also diluted. Imperial power was pursued, in part, for its own sake. There was land to be taken up, notably in the Americas, with the income and the compensatory power that went with its possession. And there were souls to be rescued and added to those already within the fold of what is rightly called organized religion. In many of the colonial lands, especially in Latin America, the power proceeding from landed property (including that of the Catholic Church as a large proprietor) much exceeded that of the merchants. In Mexico when the revolt came, it was not against the merchants but against the great landowners, including the Church.

5

In Europe, the eighteenth century may be marked as the high tide of merchant capitalism. By the turn of the next century, so great were its prestige and the impression of power it conveyed that Napoleon's Berlin and Milan Decrees,

England's answering Orders in Council, and the resulting restrictions on trade were considered major strategic moves in the Napoleonic struggles and ever since have enjoyed a reputation which is not deserved.[8] Already, however, a great change was in progress, involving a sizable invasion of merchant power. This was the Industrial Revolution and the development of industrial capitalism.

Few matters have been more debated by historians than the nature and sources of the Industrial Revolution. Was it brought about in the latter half of the eighteenth century by the more or less accidental appearance of a particularly imaginative and inventive group of entrepreneurs — the two Abraham Darbys, John Kay, James Hargreaves, Richard Arkwright, and James Watt? Or was it the product of a largely independent process of technological advance that brought with it the making of pig iron with coal, steam power from the same fuel, and, above all, the application of power to the mechanical spinning and weaving of textiles? Had it not been Arkwright, Hargreaves, and the rest, would it not have been someone else? Was it not a historically scheduled step in the general march of technology — and of capitalism?

What is not in doubt is that the Industrial Revolution involved a large, even spectacular, shift in the sources of power and, in lesser measure, in the instruments of its enforcement. Property remained central as a source of power; there was, however, another dramatic change in its character. It was no longer the stock-in-trade and other working capital of the merchant but the fixed assets — mills, fac-

[8] These were pioneer exercises in the imposition of sanctions. In the official mind sanctions remain an instrument of great effect; only after they are imposed is it learned that they are rather easily suffered and with slight effort evaded. Substitutes and substitute sources of supply abound. This lesson is thereafter soon forgotten.

tories, machinery — of the industrial capitalist. With the change in the nature of the property involved went another in the nature of the organization. The merchant had obtained his product from independent or self-employed craftsmen, artisans, and other workers in a relatively loose compensatory arrangement. The workers were now brought directly into the mill towns and the factories, which allowed of a far stronger exercise of compensatory power over those who made the product.

Conventional historiography also accords a much-enhanced role to personality. With the Industrial Revolution the entrepreneur — independent, innovative, imaginative, resourceful, sometimes ruthless, always intelligent — became a key figure on the economic scene. Perhaps so. But, as always, there must be a word of caution. Personality as a source of power is wonderfully attractive to the more susceptible historian as, in modern times, to the more impressionable journalist. Industrial capitalism owed its strength, in fact, to its access to all three sources of power — to property in mill, machinery, and working capital; to a greatly advanced form of organization binding workers to the industrial firm; and, of course, to the entrepreneurial personality.

As to the instruments of enforcement, condign power continued in decline. It was available by purchase or gift from the state and used as necessary against troublemakers, those who might try to organize workingmen's associations or unions or who were otherwise disposed to unduly expressed discontent. Mostly, however, submission was won by compensatory power. A long-persisting myth held that the workers who were now gathered into town and factory from the villages and from the cottage industries by which they and their parents had been sustained were subject to an especially oppressive power by the new industrial capitalists. The force of that power — the degree of submission demanded — cannot be doubted; we recall again that at the minimum levels of compensatory power, with starvation as the alternative, the difference from condign power is not great. But the cottage industries pursued on behalf of the merchants — the spinning and weaving from early morning until late at night and always under the threat of painful deprivation — had also been harsh in their discipline. Employers can exploit workers, but workers under pressure of stark and painful need can exploit themselves.[9] Men and women had come to the factories from the feudal estates as well. There, too, the laborer's existence was narrow, a submission in response to small compensatory reward, the traditional conditioned power of the landlord and at least the memory of his ability to inflict condign punishment. The predominantly compensatory power of early industrial capitalism was not a pleasant thing for those subject to it; it is not clear that it was more stern and demanding than what had gone before.

[9] "[E]xploitation is more shameless in the so-called domestic industry than in manufactures, and that because the power of resistance in the labourers decreases with their dissemination, because a whole series of plundering parasites insinuate themselves between the employer and the workman . . ." Karl Marx, *Capital* (New York: International Publishers, 1967), p. 462.