

STUDIES
IN THE DEVELOPMENT
OF CAPITALISM

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INTERNATIONAL PUBLISHERS, NEW YORK

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PRINTED IN THE UNITED STATES

PREFACE

A work of this kind, which is concerned with generalizing about historical development on the basis of material already collected and arranged by other hands, runs a grave danger of falling between two stools, and of displeasing both the economist, who often has little time for history, and the historian, who may dismiss it as insufficiently grounded in the first-hand knowledge that comes from actual field-work. To the economist the author may appear as an irrelevant wanderer from his proper territory, and to the historian as an intruding amateur. Of this danger and of his own imperfect equipment for the task the author has, at least, not been unaware. He has, nevertheless, been encouraged to persevere by the obstinate belief that economic analysis only makes sense and can only bear fruit if it is joined to a study of historical development, and that the economist concerned with present-day problems has certain questions of his own to put to historical data. He has been fortified by the conviction that a study of Capitalism, in its origins and growth, so much neglected by economists (other than those of a Marxist persuasion), is an essential foundation for any realistic system of economics.

There are those who deny that history can do more for the economist than verify whether particular assumptions (e.g. the assumption of perfect competition) are in some simple sense true of particular periods, and that all else is facile and dangerous extrapolation of past trends into the future. Such persons seem to ignore, firstly the fact that any economic forecast must rest on certain assumptions about tendencies to change (or their absence) the probability of which cannot be estimated at all without reference to the past ; secondly, that the *relevance* of the questions which a particular theory tries to answer—whether a given structure of assumptions and definitions affords an abstract model which is sufficiently representative of actuality to be serviceable—can only be judged in the light of knowledge about the form of development and the sequence of events in the past. In other words, it is not a matter simply of verifying particular assumptions, but of examining the relationships within a com-

plex set of assumptions and between this set as a whole and changing actuality. It is a matter of discovering from a study of its growth how a total situation is really constructed : which elements in that situation are more susceptible to change, and which are most influential in producing change in others. It is a matter of putting questions to economic development in order to discover what are the correct questions to ask both of the past and of the present and what are the crucial relationships on which to focus attention.

At any rate, this collection of historical studies has not been hastily undertaken, and the author has not lacked the guidance and instruction of friends who are themselves expert in various parts of the field. Having had its germ in some jejune chapters of twenty years ago about the origins of capitalist enterprise, the work has grown discontinuously over the intervening period. This disordered growth, with its periodic botching and reconstruction, may have caused the final form at many points to be shapeless and diffuse. But the child once born proved too intractable to be remoulded entirely, and had either to die in obscurity or to brave the public eye with all the ungainly traits of its upbringing.

For instruction in many aspects of the history of the late Middle Ages the author owes a considerable debt to Professor Postan, Dr. Beryl Smalley and Mr. Edward Miller, and for guidance concerning the Tudor and the Stuart age to Mr. Christopher Hill and Mr. Rodney Hilton, and concerning the industrial revolution to Mr. H. L. Beales. Mr. R. B. Braithwaite afforded guidance on a special point touching philosophy ; and Miss Dona Torr richly supplied suggestions and searching criticism from her store of historical knowledge, especially of the nineteenth century and of the literature of Marxism. But for the signs that remain in these pages of ignorance unconquered these guides can in no way be held responsible.

It should perhaps be added that no pretence is made that these studies do more than answer certain specific questions. Certain aspects only of economic development have been selected ; although the selection has been made in the belief that these aspects have paramount significance. Comparative data from other countries have been introduced in so far, but only in so far, as the comparison appeared to illuminate these particular enquiries. The author is under no illusion that he

has written a history of Capitalism ; and a reader will perhaps be more tolerant of them if he remembers that these studies do not pretend to afford more than a first sketch for certain portions of a complete historical picture.

M. H. D.

CAMBRIDGE,

November 1945.

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CHAPTER ONE

CAPITALISM

I

It is perhaps not altogether surprising that the term Capitalism, which in recent years has enjoyed so wide a currency alike in popular talk and in historical writing, should have been used so variously, and that there should have been no common measure of agreement in its use. What is more remarkable is that in economic theory, as this has been expounded by the traditional schools, the term should have appeared so rarely, if at all.¹ There is even a school of thought, numbering its adherents both among economists and historians, which has refused to recognize that Capitalism as a title for a determinate economic system can be given an exact meaning. In the case of economists this is largely because the central concepts of their theory, as customarily stated, are modelled in a plane of abstraction that is innocent of those historically relative factors in terms of which Capitalism can alone be defined. In the case of historians who adopt this nihilistic standpoint, their attitude seems to spring from an emphasis upon the variety and complexity of historical events, so great as to reject any of those general categories which form the texture of most theories of historical interpretation and to deny any validity to frontiers between historical epochs. No period of history, it is said, is ever made of whole cloth ; and since all periods are complex admixtures of elements, it is a misleading simplification to label any section of the historical process with the title of a single element. A system like Capitalism may be spoken of abstractly as describing *an* aspect which in varying measure has characterized numerous periods of history. But as such it is an abstract economic notion, not an historical one ; and to trace back the

¹ Sombart, in his article on the subject in the *Encyclopedia of the Social Sciences*, says : " This term is not found in Gide, Cauwès, Marshall, Seligman or Cassel, to mention only the best-known texts. In other treatises such as those of Schendler, Adolf Wagner, Richard Ehrenburg and Philipovich, there is some discussion of capitalism, but the concept is subsequently rejected." Neither *Palgrave's Dictionary of Political Economy* nor the *Dictionnaire de l'Économie Politique* includes the term Capitalism.

origins of any such "system" is generally a vain pursuit that can have no end. One may suspect that this attitude is reinforced by a more topical consideration. If Capitalism does not exist as an historical entity, critics of the present economic order who call for a change of system are tilting at windmills; and Marx in particular, who was originally responsible for the talk about a capitalist system, was following a will o' the wisp. Some have been quite outspoken about this, and, like a reviewer of Professor Tawney's *Religion and the Rise of Capitalism*, have denounced the term as being no more than a political catchword.

To-day, after half a century of intensive research in economic history, this attitude is rarely regarded by economic historians as tenable, even if they may still hold the origin of the term to be suspect. True, we find the leading historian of Mercantilism dismissing the notion of "modern capitalism" as "that unwholesome Irish stew".¹ But the prevailing view of those who have studied the economic development of modern times is summed up by Professor Tawney in a well-known passage. "After more than half a century of work on the subject by scholars of half a dozen different nationalities and of every variety of political opinion, to deny that the phenomenon exists, or to suggest that if it does exist, it is unique among human institutions in having, like Melchizedek, existed from eternity, or to imply that, if it has a history, propriety forbids that history to be disinterred, is to run wilfully in blinkers. . . . An author . . . is unlikely to make much of the history of Europe during the last three centuries if, in addition to eschewing the word, he ignores the fact."² But if to-day Capitalism has received authoritative recognition as an historical category, this affords no assurance that those who claim to study this system are talking about the same thing. Some might think that a variety of usage gave little ground for comment and could do no great harm. But the difference of verbal usage is not only associated with a different emphasis in the search for what is relevant among the multitude of historical incidents and with a different principle of selection in composing the chronicle of events, but is apt to lead to a different mode of interpretation and a different causal-genetic

¹ Professor E. Heckscher in *Economic History Review*, vol. VII, p. 45. He adds that it can only have "a distinct meaning" if it is "connected with what is called in economic science capital"—in which sense, i.e. of the existence of capital, different stages of history have differed only in degree.

² Preface to 1937 Edition of *Religion and the Rise of Capitalism*.

story. If it is the pattern which historical events force upon us, and not our own predilections, that is decisive in our use of the term Capitalism, there must then be one definition that accords with the actual shape which historical development possesses, and others which, by contrast with it, are wrong. Even a believer in historical relativism must, surely, believe that there is one picture that is right from the standpoint of any given homogeneous set of historical observations. Moreover, it not infrequently happens that those who write about Capitalism are unaware, apparently, of any problem of meaning; failing to make clear the sense in which they intend the word to be taken, and even themselves showing no great consistency in its employment.

One should, perhaps, at once make it clear that the word "capitalistic" which has become fashionable among some economists, especially those who lean towards the Austrian School, has little in common with Capitalism as a category of historical interpretation. "Capitalistic" has been used by economists in a purely technical sense to refer to the use of so-called "roundabout" or time-using methods of production, and has been largely associated with a particular view of the nature of capital. It has no reference to the way in which the instruments of production are *owned*, and refers only to their economic origin and the extent of their use. Since production beyond the most primitive has always been in some degree "capitalistic" in this technical sense, the term has little value for purposes of historical differentiation, and its inventors have not attempted to employ it in this way. Their use of it, indeed, is by implication a denial of any specific meaning to Capitalism as a special historical system.

Scarcely more helpful is another conception which we find implicit in the context in which the term is frequently used, and which has the weakness of confining Capitalism to such a narrow span of years as to draw a boundary between social phenomena that bear the strongest marks of family resemblance. According to this, Capitalism is identified with a system of unfettered individual enterprise: a system where economic and social relations are ruled by contract, where men are free agents in seeking their livelihood, and legal compulsions and restrictions are absent.¹ Thereby Capitalism is made virtually synonymous

¹ One may quote as a not very serious example, perhaps, of this the following: "True capitalism means an economy of free and fair competition for profit and continuous work opportunity for all" (J. H. R. Cromwell and H. E. Czerwonky,

with a régime of *laissez-faire* and in some usages of the term with a régime of free competition. Dicey did not employ the term Capitalism; but he treated as crucial the contrast between what he called the period of Individualism, in a sense corresponding to the notion that we are discussing, and the period of Collectivism, dating the opening of the latter from the 1870's.¹ Although a preoccupation with this kind of distinction between Individualism and *Étatisme* may, perhaps, be said to belong to the past rather than to the present, and among economic historians has seldom, if ever, been made a basis for defining Capitalism, its imprint on thought still lingers; and much of the talk that one meets to-day seems by implication to identify Capitalism with a system of "free enterprise" and to contrast it with any encroachment of State control at the expense of *laissez-faire*. The deficiency of so confined a meaning is evident enough. Few countries other than Britain and U.S.A. in the nineteenth century conformed at all closely to a régime of "pure individualism" of the classic Manchester type; and even Britain and U.S.A. were soon to pass out of it into an age of corporate enterprise and monopoly or quasi-monopoly, when *laissez-faire* as a policy has been in decline. If Capitalism is to be so straitly limited in time as this, how are we to characterize the system which preceded it and the system which followed after, both of which resembled it closely in a number of leading respects?

As having exercised a major influence on historical research and historical interpretation three separate meanings assigned to the notion of Capitalism stand out prominently in relief. While in some respects they overlap, each of them is associated with a distinctive view of the nature of historical development; each involves the drawing of rather different time-frontiers to the system; and each results in a different causal story of the origin of Capitalism and the growth of the modern world.

Firstly, and most widely familiar perhaps, is the meaning that has been popularized by the writings of Werner Sombart.

In Defence of Capitalism, 5). This definition is so exacting in the virtues it records as to make one doubt whether "true Capitalism" can have ever existed. More weighty examples are found among writers who sometimes refuse the term Capitalism to a Fascist economy and contrast Capitalism with "Totalitarianism". Cf. also the *Handwörterbuch der Staatswissenschaften* (1923): "Der Kapitalismus hat die privatwirtschaftliche oder individualistische Wirtschaftsordnung zur Voraussetzung und ist ohne diese gar nicht denkbar."

¹ *Law and Opinion in England, passim*.

Sombart has sought the essence of Capitalism, not in any one aspect of its economic anatomy or its physiology, but in the totality of those aspects as represented in the *geist* or *spirit* that has inspired the life of a whole epoch. This spirit is a synthesis of the spirit of enterprise or adventure with "the bourgeois spirit" of calculation and rationality. Believing that "at different times different economic attitudes have always reigned, and that it is this spirit which has created the suitable form for itself and thereby an economic organisation",¹ he sought the origin of Capitalism in the development of states of mind and human behaviour conducive to the existence of those economic forms and relationships which are characteristic of the modern world. "At some time in the distant past the capitalist spirit must have been in existence—in embryo if you like—before any capitalist undertaking could become a reality."² The pre-capitalist man was "a natural man" who conceived of economic activity as simply catering for his natural wants; and in pre-capitalist times "at the centre of all effort and all care stood living man: he is the measure of all things—*mensura omnium rerum homo*".³ By contrast, the capitalist, "root(ing) up the natural man" with his "primitive and original outlook" and "turn(ing) topsy-turvy all the values of life", sees the amassing of capital as the dominant motive of economic activity, and in an attitude of sober rationality and by the methods of precise quantitative calculation subordinates everything in life to this end.⁴ More simply Max Weber defined Capitalism as "present wherever the industrial provision for the needs of a human group is carried out by the method of enterprise", and "a rational capitalistic establishment" as "one with capital accounting"; and he used the spirit of Capitalism "to describe that attitude which seeks profit rationally and systematically".⁵

Secondly, there is a meaning, more often found implicit in the treatment of historical material than explicitly formulated,

¹ *Der Moderne Kapitalismus* (1928 Ed.), I, 25. This he described as "the fundamental idea (*Grundgedanke*)" of his work.

² *Quintessence of Capitalism*, 343-4.

³ *Der Moderne Kapitalismus*, vol. I, 31.

⁴ *Quintessence*, 13-21, 239.

⁵ *General Economic History*, 275; *The Protestant Ethic and the Spirit of Capitalism*, 64. Weber's view is closely associated with Sombart's; but at the same time it has certain differences. Mr. Talcott Parsons has emphasized that there is a distinction between Weber's "capitalism in general", which "is a purely economic category" (unlike Sombart's) and refers to any rationally conducted exchange for profit (which comes close to the second meaning we are about to mention), and his historical notion of "modern Capitalism" which is the same as Sombart's. (*Journal of Political Economy*, vol. 37, p. 34.)

which virtually identifies Capitalism with the organization of production for a distant market.¹ Whereas the régime of the early craft guild, where the craftsman sold his products retail in the town market, would presumably be excluded by this definition, Capitalism could be regarded as being present as soon as the acts of production and of retail sale came to be separated in space and time by the intervention of a wholesale merchant who advanced money for the purchase of wares with the object of subsequent sale at a profit. To a large extent this notion is a lineal descendant of the scheme of development employed by the German Historical School, with its primary distinction between the "natural economy" of the mediæval world and the "money economy" that succeeded it, and its emphasis on the area of the market as defining the stages in the growth of the modern economic world. In the words of Bücher, the essential criterion is "the relation which exists between the production and consumption of goods ; or to be more exact, the length of the route which the goods traverse in passing from producer to consumer".² This is not uncommonly found in close conjunction with a definition of Capitalism as a system of economic activity that is dominated by a certain type of motive, the profit-motive ; the existence in any period of a substantial number of persons who rely on the investment of money with the object of deriving an income, whether this investment be in trade or in usury or in production, being taken as evidence of the existence of an element of Capitalism. Thus we find Capitalism described by Professor Earl Hamilton, the historian of the sixteenth century price-revolution, as "the system in which wealth other than land is used for the definite purpose of securing an income" ;³ while Pirenne seems to apply the term to any "acquisitive" use of money, and declares that "mediæval sources place the existence of capitalism in the twelfth century beyond a doubt".⁴ When this notion is married to that of Capitalism as a commercial system—as production for the market—we have the kind of definition that we find used by Professor Nussbaum : "a system of exchange economy" in which the "orienting principle of economic activity is unrestricted profit" (to which, however, he

¹ Cf. Marx's reference to Mommsen, the historian of ancient Rome, as one who "discover(s) a capitalist mode of production in every monetary economy" (*Capital*, vol. III, 914).

² *Industrial Evolution*, 89. Cf. also Schmoller, *Principes d'Économie Politique*, *passim*.

³ In *Economica*, Nov. 1929, 339.

⁴ *Economic and Social History of Mediæval Europe*, 163 ; cf. also Pirenne in *American Historical Review*, 1914, 494 seq.

adds as an additional characteristic that such a system is marked by a differentiation of the population into "owners and property-less workers".¹) The tendency of those who give this emphasis to the term is to seek the origins of Capitalism in the first encroachments of specifically commercial dealings upon the narrow economic horizons and the supposedly "natural economy" of the mediæval world, and to mark the main stages in the growth of Capitalism according to stages in the widening of the market or to the changing forms of investment and business enterprise with which this widening was associated. In many respects this notion has affinity with Sombart's, and overlaps with the latter; but the focus of its attention remains substantially different.

Thirdly, we have the meaning originally given by Marx, who sought the essence of Capitalism neither in a spirit of enterprise nor in the use of money to finance a series of exchange transactions with the object of gain, but in a particular mode of production. By mode of production he did not refer merely to the state of technique—to what he termed the state of the productive forces—but to the way in which the means of production were owned and to the social relations between men which resulted from their connections with the process of production. Thus Capitalism was not simply a system of production for the market—a system of commodity-production as Marx termed it—but a system under which labour-power had "itself become a commodity" and was bought and sold on the market like any other object of exchange. Its historical prerequisite was the concentration of ownership of the means of production in the hands of a class, consisting of only a minor section of society, and the consequential emergence of a propertyless class for whom the sale of their labour-power was their only source of livelihood. Productive activity was furnished, accordingly, by the latter, not by virtue of legal compulsion, but on the basis of a wage-contract. It is clear that such a definition excludes the system of independent handicraft production where the craftsman owned his own petty implements of production and undertook the sale of his own wares. Here there was no divorce between ownership and work; and except where he relied to any extent on the employment of journeymen, it was the purchase and sale of inanimate wares and not of human labour-power that was his

¹ *History of Economic Institutions of Europe*, 61. Elsewhere in this work, however, the author appears as a fairly close adherent of Sombart's view.

primary concern. What differentiates the use of this definition from others is that the existence of trade and of money-lending and the presence of a specialized class of merchants or financiers, even though they be men of substance, does not suffice to constitute a capitalist society. Men of capital, however acquisitive, are not enough : their capital must be used to yoke labour to the creation of surplus-value in production.

It is not our purpose here to debate the merits of rival definitions : merely to make clear that in the studies which follow the last of these three senses is the one in which Capitalism will be used, and to underline some of the implications of using the term in this way. The justification of any definition must ultimately rest on its successful employment in illuminating the actual process of historical development : on the extent to which it gives a shape to our picture of the process corresponding to the contours which the historical landscape proves to have. As our ground for rejecting the other two of this trio of familiar meanings the following all-too-cursory observations must suffice.

Both Sombart's conception of the capitalist spirit and a conception of Capitalism as primarily a *commercial* system share the defect, in common with conceptions which focus attention on the fact of acquisitive investment of money, that they are insufficiently restrictive to confine the term to any one epoch of history, and that they seem to lead inexorably to the conclusion that nearly all periods of history have been capitalist, at least in some degree. As our knowledge of earlier economic societies has increased, the tendency on the part of those who give such meanings to the term has been to extend the boundaries of Capitalism further back in time. It is now realized that money dealings and production for a market were much more common in mediæval times than used to be supposed. As Brentano remarked, the Fourth Crusade already disclosed " a very orgy of Capitalism " in this sense of the word.¹ And as our knowledge of the economic conditions of the ancient world extends, evidence accumulates to show that, on such definitions, the presence of Capitalism cannot be denied even in classical Greece and Rome. The acquisitive use of money is not exclusively modern. The purchase of slaves in antiquity was presumably an " acquisitive "

¹ Sombart frankly admitted that this was so. He rather unconvincingly tried to meet the objection by asserting that commerce in mediæval times was not commerce in any mature sense, but was inspired by the spirit of handicraft and not by a capitalist spirit.

employment of money as much as is the hire of wage-earners to-day. The classical world had its usurers, and *lucri rabies* was not a sin unknown to the mediæval world. If both are to be regarded as capitalist societies, one has to conclude that any search for the origins of the system within the confines of the last eight centuries is useless, and that Capitalism must have been present intermittently throughout most of recorded history. What we clearly need, however, is a definition to describe the distinctive economic institutions of the modern world of recent centuries ; and what cannot do this is useless for the purpose that most people intend.

The further difficulty attaches to the idealist conception of Sombart and Weber and their school, that if Capitalism as an economic form is the creation of the capitalist spirit, the genesis of the latter must first of all be accounted for before the origin of Capitalism can be explained. If this capitalist spirit is itself an historical product, what caused its appearance on the historical stage ? To this riddle no very satisfactory answer has been propounded to-date, other than the accidental coincidence in time of various states of mind, which conveniently fused in a marriage of enterprise and rationality to form the *élan vital* of a capitalist age. The search for a cause has led to the unsatisfactory and inconclusive debate as to whether it be true that Protestantism begat the capitalist spirit (as Weber and Troeltsch have claimed) ; and there seems to be scarcely more reason to regard Capitalism as the child of the Reformation than to hold, with Sombart, that it was largely the creation of the Jews.¹ Nor is this difficulty of tracing back the *causæ causantes* one which also attaches, *mutatis mutandis*, as is sometimes supposed, to an explanation of capitalist origins that runs in purely economic terms. While it is true that behind any economic change one has to look for some human action, the action which initiates the crucial change may be inspired by an intention which is quite alien to the final outcome, and hence be a simple product of the preceding situation ; whereas, if the emergence of a new economic system

¹ To the claim of Weber and Troeltsch that the Protestant ethic encouraged the spirit of calculation Mr. H. M. Robertson (in *Aspects of the Rise of Economic Individualism*) has replied, with some effect, that there was little to choose between Protestant and Catholic writers in their attitudes to such matters as commercial calculation and free trade ; and Brentano and others since his day (e.g. Pirenne) have shown that it is possible to find plenty of calculating acquisitiveness before the Reformation. Cf. P. C. Gordon Walker on "Capitalism and the Reformation" in *Econ. Hist. Review*, Nov. 1937 ; also A. E. Sayous in *Revue d'Histoire Économique et Sociale*, 1930, 427-44.

is to be explained in terms of an *idea*, this idea must embody "in embryo" the essence of the future system in advance; and the emergence full-grown of the idea of that system, before and in the absence of the system itself, has to be explained.

On the other hand, it is clear that, as our knowledge has been enriched by the extension of research into modern economic history in the last few decades, the definition of Capitalism in actual use in historiography has moved increasingly towards that which was first adopted and developed by Marx. Emphasis has increasingly come to be placed on the emergence of a new type of class differentiation between capitalist and proletarian rather than on profit as a motive of economic activity; and attention has increasingly been focused upon the appearance of a relationship between producer and capitalist, analogous to the employment relation between master and wage-earner in the fully matured industrial system of the nineteenth century. On the whole it seems more likely that this is because the material which research has disclosed has forced this emphasis upon the attention of historians in their search for the essential differentia of the modern age, than because they have been predisposed towards it by the writings of Marx. Thus, Mr. Lipson, in claiming that the essentials of Capitalism were present some centuries before the industrial revolution, states that "the fundamental feature of capitalism is the wage-system under which the worker has no right of ownership in the wares which he manufactures: he sells not the fruits of his labour but the labour itself—a distinction of vital economic significance"¹ Even Cunningham came close to this standpoint when he said that "the distinguishing feature of capitalist organisation of industry is the possession of the materials by the employer, who engages the workman and pays his wages; he subsequently makes a profit by the sale of the goods"; adding that "the intrusion of capital may not make much apparent change in the conditions under which the work is done, but it makes a tremendous change in the personal relations of the workman to his fellowmen when he is reduced to a position of dependence".

¹ *Economic History*, 3rd Ed., vol. II, xxvi. Mr. Lipson adds to this, however, that "if the goods do not belong to him because the material is provided by another person, then he is a wage-earner whether the instruments of production belong to him or not". If, however, "the true test is whether the worker has any property in the goods which he makes", and ownership of the means of production is disregarded, will not the definition be extensible also to what is customarily called a socialist system? In another place, curiously enough, Mr. Lipson speaks of "the mediæval village" as "organized on a capitalist basis" (*Ibid.*, 372).