James Fulcher

CAPITALISM

A Very Short Introduction

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Contents

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Chapter 1

What is capitalism?

Merchant capitalism

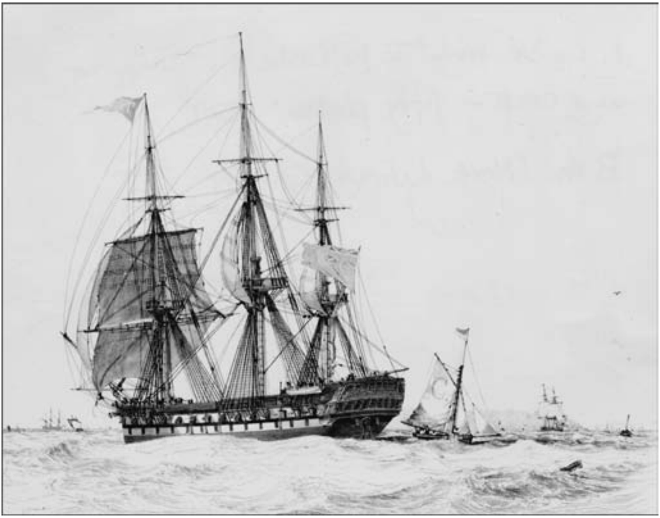
In April 1601 the English East India Company sent its first expedition to the East Indies. After some 18 months its four ships, *Ascension*, *Dragon*, *Hector*, and *Susan*, had returned from Sumatra and Java with a cargo mainly of pepper. The success of this venture led to a second expedition by the same ships, which left London in March 1604. On the return journey *Hector* and *Susan* set off first, but *Susan* was lost at sea and *Hector* was rescued by *Ascension* and *Dragon*, which found her drifting off South Africa with most of her crew dead. *Ascension*, *Dragon*, and *Hector* made it back to England in May 1606 with a cargo of pepper, cloves, and nutmegs. The shareholders in these two voyages made a profit of 95% on their investment.

Despite the similar success of the third expedition in 1607, the fourth one in 1608, consisting of the ships *Ascension* and *Union*, was a complete disaster. The *Ascension* reached the west coast of India but was there wrecked by its 'proud and headstrong master', who drove his ship aground after ignoring local warnings about shoaling waters. The *Union* called in at a Madagascan port, where the crew was ambushed and the captain killed, but nonetheless the ship made it to Sumatra and loaded a cargo. On her way back, the *Union* was wrecked off the coast of Brittany. The investors in this expedition lost all their capital.

Capitalism is essentially the investment of money in the expectation of making a profit, and huge profits could be made at some considerable risk by long-distance trading ventures of this kind. Profit was quite simply the result of scarcity and distance. It was made from the huge difference between the price paid for, say, pepper in the spice islands and the price it fetched in Europe, a difference that dwarfed the costs of the venture. What mattered was whether the cargo made it back to Europe, though market conditions were also very important, for the sudden return of a large fleet could depress prices. Markets could also become saturated if the high profitability of the trade led too many to enter it. A glut of pepper eventually forced the East India Company to diversify into other spices and other products, such as indigo.

A large amount of capital was needed for this trade. An *East Indianman*, as the ships engaged in this trade were called, had to be built, fitted out, armed with cannon against Dutch and Portuguese rivals, and repaired, if and when it returned. The Company's shipyards at Blackwall and Deptford, which were major employers of local labour, required financing. Capital was also needed to stock outgoing vessels with bullion and goods to pay for the spices, with munitions, and with food and drink for the large crews they carried. On the Company's third expedition, *Dragon* had a crew of 150, *Hector* 100, and *Consent* 30 – in all 280 mouths to feed, at least initially. One reason for the large crews was to make sure there were enough sailors to get the ships back after the hazards of the expedition had taken their toll.

The East India Company's capital was obtained largely but not entirely from the rich London merchants who controlled and administered it. Aristocrats and their hangers-on were another source, and one welcomed by the Company because of their influence at Court. The Company's privileges depended on royal favour. Foreign money was also involved, mainly from Dutch



1. East Indiaman, 1829

merchants excluded by the rival Dutch East Indies Company. They were also a useful source of intelligence about that company's activities.

The first 12 voyages were each financed separately, with capital committed to one voyage only and the profits of the voyage distributed among its shareholders, according to traditional merchant practices. This was, however, a risky way of financing long-distance trade, for it exposed capital to a long period of uncertainty in far-away and unknown places. Risk could be spread by sending out several ships on each expedition, so that not all the eggs were in one basket, but whole expeditions could, nonetheless, be lost, as in 1608. The company shifted to a method of finance that spread risks over a number of voyages and then became a fully fledged joint-stock company, with, after 1657, continuous investment unrelated to specific voyages. In 1688 trading in its stocks began on the London Stock Exchange.

Risk was also reduced through monopolistic practices. Like its counterparts abroad, the English East India Company was closely intertwined with the state, which granted it a monopoly for the import of oriental goods and gave it the right to export bullion to pay for them. In exchange the state, always short of money, gained revenue from customs duties on the large and valuable imports made by the company. There was certainly competition but it was international competition, in the Indies between the English, the Dutch, and the Portuguese, and as far as possible eliminated within each country. Outsiders were always trying to break into the trade, and one of the key privileges bestowed on the East India Company by the state was the right to take action against 'interlopers'.

Markets were manipulated by buying up stocks and holding back sales. In the 17th century Amsterdam merchants were particularly skilled in these practices and busily established monopolies not only in spices but in Swedish copper, whale products, Italian silks, sugar, perfume ingredients, and saltpetre (an ingredient of gunpowder). Large warehouses were crucial to this and Fernand Braudel comments that the warehouses of the Dutch merchants were bigger and more expensive than large ships. They could hold sufficient grain to feed the entire country for 10 to 12 years. This was not just a matter of holding goods back to force up prices, for large stocks also enabled the Dutch to destroy foreign competitors by suddenly flooding the whole European market with goods.

This was certainly capitalism, for long-distance trade required a heavy investment of capital in the expectation of large profits, but a free market capitalism it clearly was not. The secret of making high profits was to secure monopolies by one means or another, exclude competitors, and control markets in every way possible. Since profit was made from trading in scarce products rather than rationalizing production, the impact of merchant capitalism on society was limited. Most of the European population could get on with their daily work without being affected by the activities of these owners of capital.

Capitalist production

In the 1780s two Scots, James M'Connel and John Kennedy, travelled south to become apprentices in the Lancashire cotton industry. After gaining experience and making some money in the manufacture of cotton machinery, they set up their own firm in 1795 with an initial capital of £1,770. They soon made good profits from cotton spinning, achieving a return on capital of over 30% in 1799 and 1800. They accumulated capital rapidly and by 1800 their capital had risen to £22,000, by 1810 to £88,000. By 1820 the company had three mills and had established itself as the leading spinner of fine cotton in Manchester, the global metropolis of cotton spinning.

This soon became a very competitive industry, however, and profits could not be sustained at the high level of the early 1800s. This was, indeed, largely because high profits had resulted in expansion and attracted new entrants. There were already 344 cotton mills by 1819 but by 1839 there were 1,815. Technical advances enabled huge increases in productivity during the 1830s, and competition drove companies to invest heavily in the new machinery. The bigger mills built at this time contained 40,000 spindles, as compared with the 4,500 or so of their predecessors. The costs of this heavy investment in buildings and machinery, together with the downward pressure of increased productive capacity on yarn prices, depressed the industry's profitability to low levels in the 1830s.

Profit depended ultimately on the workers who turned raw cotton into yarn. M'Connel and Kennedy's labour force grew from 312 in 1802 to around 1,500 by the 1830s. Much of this was cheap child labour and at times nearly half those employed were under the age of 16. In 1819 there were 100 children under the age of 10, some as young as 7, who worked from 6.00 in the morning until 7.30 at night.