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SYLLABUS SERIES No. 2.

THE
DEVELOPMENT
OF CAPITALISM

An Outline Course for Classes
and Study Circles

BY
MAURICE H. DOBB

Price Sixpence

LABOUR RESEARCH DEPARTMENT
162 BUCKINGHAM PALACE ROAD
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THE DEVELOPMENT OF MODERN CAPITALISM.

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PREFACE.

This course is intended as a skeleton outline for worker students, studying either on their own, or in classes or study circles. References are given to books, which should be read to fill in the skeleton outline with more solid matter. Some of the cheaper books are obtainable from working class bookshops, e.g., the Plebs Book Department, 162a, Buckingham Palace Road. The larger books should be obtainable from book clubs and libraries.

This course is not intended as a substitute for more solid reading, but merely as an introduction and (be it hoped) an assistance to it. In reading, the student will often find the taking of notes very helpful, both as an aid to concentration and for later reference. The student should also try to develop his (or her) own power of forming ideas clearly and expressing them clearly by writing essays or short commentaries on what he has read, as frequently as possible. In study circles the reading of such essays to the circle and the discussion of them often acts as an incentive to study and self-expression. The course has been divided into 12 sections, roughly to cover a course of 12 lectures. If need be, however, each section can for purposes of study be further divided, and half only taken at a time. At the end blank pages are left for students to make notes or to add additional references.

Students will find Mr. G. D. H. Cole's syllabus in this series on English Social History a useful adjunct to this present outline. Also the syllabus by J. F. Horrabin on Economic Geography.

The writer is indebted to Mr. G. D. H. Cole for valuable suggestions as to the preparation of this syllabus, and to Mr. G. Allen Hutt, of Downing College, Cambridge, for helpful criticisms.

M.H.D.

SECTION I.

Domestic Industry.

We all of us tend to think that the way industry is organised and run to-day is the way it has always been, and the way it always will be. Those persons who want things to remain as they are encourage us to think this.

If we are going to understand the way in which industry is organised and controlled at present, we must study the way it has grown up and developed in the past. A child develops understanding by developing the ability to distinguish *differences* between things. So history by enabling us to compare events to-day with events in the past enables us to understand present events better. Further, most of the heritage of knowledge, which distinguishes 20th century man from the savage is the product of the *scientific method*. This has been applied in the sciences of mechanics (the basis of engineering), chemistry, astronomy, biology, medicine, etc. Our Universities have as yet failed to do so adequately in the study of social evolution and social institutions. Marx was the first to apply the scientific method to the facts of history. A scientific study of economic and social evolution is necessary to give us an understanding of the scientific method, and to enable us to use it in solving social problems, just as the engineer uses it in solving engineering problems. Study, by developing our minds in this way, furnishes us with intellectual 'tools,' with which to increase our command over the blind forces of nature. The working class is the class that in the future is destined to build a new society out of the crumbling ruins of the present. Hence working class students in particular must understand social evolution, and must be able to look at the problems of society in a scientific manner. For this reason orthodox history, as taught by the Universities, is of little use by itself to the workers.

Before about 1770 production was carried on in a way very different from the present. There were hardly any factories. At most there were small workshops and iron foundries, which resembled more a blacksmith's shop than a modern foundry. In the textile trades artisans had their own looms and spinning wheels (as they still do in remote parts of Ireland), which they worked in their own cottages by *hand*. The capitalist was a *merchant*—a 'merchant manufacturer' he was called—who supplied, often, raw material to these cottage workers, sent his agents to fetch the cloth when finished, paid for it, and then took it off and sold it at the big fairs and markets.

The merchants who traded abroad were usually organised in *large Merchant Companies*, such as the East India Company,

which had the monopoly of trade with India. They wanted to make profit by buying cheap and selling dear; and they could not do this if there were other merchants competing against them, and so pushing up the price in markets where they bought, and 'cutting' prices where they sold. Consequently these Merchant Companies tried (a) to exclude foreign merchants from their markets in the colonies, e.g., India, British North America, etc. (b) to exclude foreign goods from competing in the home market with the goods they themselves imported from the colonies. Many prominent men among the aristocracy belonged to these Companies, and they used their influence with Parliament and with Cabinet Ministers to get a political policy enforced favourable to these objects. They succeeded, and the result is what is known as the *Mercantilist System*—a system of carefully regulated and 'protected' trade.

The important things to be noticed about this system which preceded modern capitalism are:—

1. Production was mostly *handicraft*.
2. The worker usually worked in his own way, in his own house, with *his own tools*.
3. The capitalist was a *merchant*, who made his money out of *trade*.

BOOKS FOR STUDY.

W. McLaine, "Evolution of Industry," (Comm. Party, 3d.)

Mark Starr, "A Worker Looks at History" (Plebs League, 2/-), XII, Pp. 79—86.

F. Austin Ogg, "Economic Development of Modern Europe," (Macmillan), Chapters 3 & 4.

Alfred Marshall, "Industry and Trade," (Macmillan), Pp. 714—718, 719—747.

SECTION II.

The Genesis of Capitalism.

Between 1750 and 1800 there occurred various inventions in textile machinery. These enabled cotton and wool to be spun and woven much quicker and in much larger quantities than before; and this new machinery required *power* to drive it—at first water power, later steam power. Hargreaves, Arkwright, Crompton, and Cartwright are names associated with these inventions. Watt and Bolton at this time also perfected the use of the stationary steam engine.

This new machinery was too expensive as a rule to be bought by the independent handicraftsmen. It needed the capitalist with money to invest in buying this machinery and setting it up. Further, as it needed power to drive the machinery, the machine had to be set up in places where the power was available, e.g., by the side of a fast running stream, and later in the districts where coal was near at hand. These two facts made necessary the setting up of *factories* by capitalists, who owned the machinery, hired labour to work the machinery, and directed that labour in the factory. As the new power-driven machinery produced at a much higher rate than the old hand looms and spinning wheels, the trade of the hand spinners and hand-loom-weavers was gradually taken away from them, and the latter were forced to migrate to the towns and offer their labour-power for hire in the new factories.

But along with this grouping of workers and machines in factories went the grouping of factories and industries in particular localities, either near their source of *power* (e.g., coal or water) or near raw material (e.g., iron ore). This is called the *Localisation* of industry. Thus cotton factories first sprang up near the fast-running streams on the slopes of the Pennines. Later they moved down into the plains of Lancashire, where the damp climate is favourable to cotton spinning, and where there was easy access both to coal and to the ports, through which shipment of raw cotton from America was made; and Manchester became the chief market for cotton with Liverpool as its chief port. Similarly wool manufacture, which under the Domestic System had been scattered in numerous villages nearly all over England, became largely localised in the West Riding of Yorkshire, with Bradford as its commercial centre. This grouping enabled, too, a large amount of *Specialisation*—specialisation of particular workers on particular jobs, and of particular factories on particular processes (e.g., in worsted trade, combing, spinning, weaving, finishing, dyeing). Also it was possible for subsidiary firms to spring up (e.g., makers of cotton machinery) to specialise

on supplying the wants of the textile trade. This localisation and specialisation (Division of Labour it was sometimes called) involved immense economies; for the man or the firm who can devote all his or its energy and skill to one particular job can do that job far more efficiently. Further, it enables the economies of large scale production to be utilised.

But during this early period of capitalism, when textiles were our leading industry, there was no large-scale industry in the modern sense. Mills and factories were quite small: a mill employing 200 hands was considered large. There was still opportunity for the small capitalist, starting with a little capital, to climb up on the backs of others and become a prosperous and wealthy cotton magnate. Industries were not as a rule run by large companies as at present, but by single men or families—one-man business or family partnership. These early capitalists were usually hard-working, energetic, thrifty almost to miserliness, with a strong family sense, and a strong local patriotism for their town or district. Often they were nonconformist chapel-goers, who sweated and brutalised workers in their mills on week days, and on Sundays gave liberally that the poor might have obedience and piety preached unto them.

This revolution in the organisation of the textile industry involved too a development of production of coal and iron. Here the invention of the steam engine helped considerably; and the use of coke instead of charcoal for smelting, and the invention of 'Puddling' increased the output of iron so that in 1815 we were exporting 91,000 tons a year; and there began to spring up numerous fairly large iron works. In addition agriculture was being revolutionised by the break up of the old peasant holdings by the ejection of the peasants and the 'enclosure' of the common land. In their place capitalist farms were instituted: the capitalist farmer invested his money in the farm, in buying implements, in making improvements, and in organising a scientific rotation of crops, and then labourers were hired for a wage to come and work on the land.

This *Industrial or Technical Revolution*, as it has been called, was a gradual and an uneven process. Hand looms continued in the weaving trade for some time after spinning had been revolutionised by the introduction of power machinery. In the knitting trade, although factory industry had come earlier (because of the invention of the wide frame), steam power was not introduced until the invention of the rotary frame in 1845. In 1840, although the power loom was fully established in cotton weaving and in worsted, it was only very partially established in the linen, wool and silk trades.

The important features of capitalism ushered in by the inventions of the late 18th century are:—

1. The factory, the machinery and the raw material are owned by the capitalist; the production process and the sale of the finished product are organised by the capitalist.

2. Hence the capitalist is no longer a mere merchant, interested exclusively in *trade*; he is a manufacturer, owning machinery and hiring labour-power, and interested in *production*. It is there that he makes his profit.

3. The worker no longer owns the instruments with which he works. As new inventions take place, it becomes more impossible for him to 'save' and buy machines of his own. No longer is the worker an artisan, controlling his own conditions of work.

It will be clear that two social conditions were necessary before capitalism became possible. In the first place there had to be a sufficient accumulation of wealth in the hands of a few, to enable the initial capital outlay in factories, machinery, and the purchase of raw material and labour-power to be made. This accumulation had taken place during the previous few centuries, great wealth having accumulated among the merchants through their trade with British overseas colonies. Second, the capitalist would not have had sufficient workers willing to work in his factories at a wage sufficiently low to leave him a substantial profit, unless there had existed a large mass of the population without a means of livelihood. This propertyless proletariat had been growing fast, partly through the natural growth of population in excess of accommodation on the land, and partly through the expropriation of the small peasant in the villages, and his ejection from his holding and from use of the common land. This 'enclosure' of common lands by the capitalist landowners went on apace between 1750 and 1830. The ranks of the proletariat were still further swollen by the number of artisans (hand-loom-weavers, etc.) superseded by the new machinery.

In addition it was necessary for transport and means of communication to be improved in order to widen the market, and so permit of localisation and specialisation. Round about 1800 occurred a vigorous building of 'turn-pike' roads and also canals.

BOOKS FOR STUDY

J. A. Hobson, "The Evolution of Modern Capitalism," Chap. I.—IV.

Mark Starr, "A Worker Looks at History," XV., pp. 106—15.

F. A. Ogg, "Economic Development of Modern Europe," Chapters 6 & 7.

Lilian Knowles, "Industrial and Commercial Revolutions," (Routledge, 4/6), Part II.

Townend Warner, "Landmarks in English Industrial History," Chapters 15 & 16.

Karl Marx, "Capital," I., Pp. 736—800.

SECTION III.

Textile Capitalism and Politics.

We saw in Section I that during the 18th century the merchants had used their influence to guide national policy in a direction favourable to their interests, and so had produced the Mercantilist System. But the Industrial Revolution introduced quite new conditions. The old rigid restrictions of Mercantilism acted as fetters on the new form of factory machine production; and therefore the rising capitalists of the middle class who owned textile mills, and those Manchester and Liverpool merchants who had invested their money in cotton production began to agitate for political reform. The new economic system needed among other things:—

(a) A cheap and steady supply of raw material. Raw cotton came from America. Therefore, good relations with America was desirable, and trade must be free and unrestricted.

(b) A wide market (as distinct from the *monopolised* market of the Mercantilists) to permit them to take full advantage of the economies of factory industry on a large scale. The best market was Europe. Hence Peace and Free Trade in Europe were desirable.

(c) An abundant and cheap labour supply. Hence the old restrictions on the mobility of labour, legal regulation of wages, and everything which hindered the worker from being proletarianised and from drifting into the towns was undesirable. Corn Laws which raised the price of bread made labour dear, and therefore were hateful to the middle class.

(d) Freedom from State regulations, which hindered free competition and economic mobility; since industry flourished most, and the enterprising were able to 'get on' under a regime of free competition.

Huskisson, Secretary to the Board of Trade, in 1823 went to meet these demands by lowering many of the protective import duties, and by abolishing the mercantilist Navigation Acts, which although favourable to British shipping hindered trade with foreign countries.

But the middle class had no direct voice in the government of the country. The franchise was almost everywhere in the hands of the big landowners. The new manufacturing towns of the North had little or no representation in Parliament. Hence the Radicals began to agitate for Parliamentary Reform; and in 1832 threats of violence and, among other things, threats to withdraw gold from the banks forced the Duke of Wellington, the mouthpiece of the Tory landed interests, wisely to bow to the inevitable, and to allow the passing of the Great Reform Act, which enfranchised the middle class (but not the working class).

Following 1832 the final remnants of Mercantilism were swept away, and reforms took place to make the political system fit the changed economic condition of the country. The Poor Law of 1834 introduced the workhouse principle. It was based on the belief that unless the workhouse was made less pleasant

than conditions of the most poorly paid workers, workers would not be willing to work at the wages the employers were willing to offer. In 1835 there was a reform of municipal government to give the middle classes power of control over local administration. Cobden and Bright, the Manchester cotton manufacturers, organised the Anti-Corn Law League, and waged a fierce political war on the landowners, who retaliated by demanding regulation of the appalling conditions in the new factories. In 1846 Sir Robert Peel gave way, and by 1849 the Corn Laws were completely abolished. In 1853 Gladstone, of Liverpool, took the lead of the new middle class Liberal Party, swept away the last remnants of protective import duties, withdrew military garrisons from former 'outposts of Empire,' and made a commercial treaty to promote Free Trade with France.

So the black factory chimneys and congested towns, the keen competition of thrifty manufacturers and swiftly made fortunes had their social reflex in the conditions of mid-Victorian England—with its moral code of thrift, pushfulness, and family devotion, as praised by writers like Dickens and Smiles; with the robustness of its families and its meals of roast beef and Yorkshire pudding; with 'Money,' not 'Birth,' its 'summum bonum,' and ostentation or 'prettification' as its only canons of Art. That was the Victorian England against which aristocratic intellectuals, like Ruskin, Carlyle, and William Morris, revolted (and still do) so violently.

Meanwhile the working class, finding that in selling their labour-power to the capitalist they were in every way concluding an inferior bargain, organised in Trade Unions. The employers formed combinations in turn. At first these combinations were declared illegal by the Combination Acts, but as the magistrates were often employers themselves or friends and relations of employers, the Acts were only enforced against the workers. The Radicals, however, who were demanding 'no restrictions on industry,' in consistency had to permit the removal of this restriction, and in 1826, through the efforts of the Radical tailor of Charing Cross—Francis Place—Trade Unions were legalised. So started the Class Struggle, which to-day dislocates the industrial system, the struggle of the proletariat trying to alter conditions so as to sell their labour-power dear, and the capitalists trying to preserve their 'monopoly' of capital, which enables them to reap a 'monopoly rent' or 'surplus value' from the fact of their privileged position.

BOOKS FOR STUDY.

- F. A. Ogg, "Economic Development of Modern Europe," Chapter 12, pp. 256—269.
 Townsend Warner, "Landmarks in English Industrial History," Chapter 18.
 Turberville & Howe, "Great Britain in the Latest Age," (Murray, 7/6), Chapters VII, VIII pp. 160—172, IX pp. 185—191.

SECTION IV.

The Second Industrial Revolution.

An impression is sometimes given in history books that the Industrial Revolution was something that started about 1770 and ended abruptly about 1830. Actually the introduction of the factory system and power machinery in the Textile Industry at that date was but part of a whole process, which continued after 1830 probably at a greater rate than before, and which round about 1870 resulted in a second industrial revolution, whose social effects were as great as those of the revolution three-quarters of a century before.

The immediate cause of this change, just as in the earlier industrial revolution, was a series of inventions in machinery; only this time it was inventions in the iron and steel industry, not in textiles, which took pride of place. In 1855 there was the Bessemer invention; in 1864 Siemens and Martin invented the open hearth process; in 1875 Thomas and Gilchrist invented the basic process, which procured the removal of phosphorus from pig iron in the Bessemer 'converter.' These inventions enabled the output of iron and steel to be enormously increased. The Thomas-Gilchrist invention enabled the utilisation of highly phosphoric ores, impossible hitherto.

We have said that inventions were the *immediate* cause. But just as seed will not bear fruit unless it is sown in suitable soil, so these inventions would have had little effect if it had not been for other economic conditions, which had evolved out of the process set in motion round about 1800. First, the means of transport and communication had been enormously improved since the close of the Napoleonic Wars (1815). The steam engine and the steamship had been invented, also the telegraph. During the '40's in England there had been a speculative burst of railway construction. By 1840 a regular service of steamers was going from London to the Mediterranean. In 1869 the Suez Canal was built, providing an easy trade route to the East.

Second, the large fortunes made during the first half of the century had caused a still greater accumulation of wealth in the hands of the capitalist class. The development of the banking system, and its centralisation and stabilisation by Peel's Bank Charter Act of 1844, the foundation of the Post Office Savings Bank in 1861, the Company Act of 1864, which established the "limited liability" of shareholders in Joint Stock Companies—these and similar developments enabled the formation of big companies (in place of the one-man business) with a large capital. It was the high profits, and hence the possibility of large capital accumulation, during the first part of the century, which made possible the economic expansion at the end of the century.

The net result of all this was a shifting of the economic centre of gravity from Textiles to Iron and Steel; from Manchester to Birmingham. The inventions enabled the output of steel to be enormously increased; and this and the widening of the market, due to improvements in transport, made possible a localisation and concentration of the steel industry and its organisation on the lines of 'mass production.' Unlike the Textile Industry, there is great economy in organising iron and steel production on a very large scale, and in combining a number of separate processes in one works. First, the iron and steel industry was localised near the coal and iron in the Black Country, north of Birmingham. Later, when a large part of our iron ore was imported from Bilbao in Spain, and when iron and steel finished goods became huge in bulk and hence difficult of transport, the industry tended to move to the ports, and is now localised chiefly in South Wales, the Cleveland, and the Clyde.

The features of this second industrial revolution were:— (a) the growing importance of the big joint stock companies, in place of the single-man business or small partnership; (b) the growth of a 'rentier' class of small investors; (c) the development of large scale industry; (d) the increasing difficulty of the small capitalist rising and becoming rich: in the textiles there is still considerable opportunity for the small man to rise, e.g. through the help of Room and Power Companies, but in iron and steel it is becoming more and more impossible; (e) the tendency to the growth of big combines—sometimes 'horizontal combines' of competing firms, more often 'vertical combines' reaching back to control raw material, reaching forward to control shipping and dock companies, railroads, etc.; in Britain there have been combines in iron and steel, like Vickers, Furness Withy, John Brown, etc., in U.S.A. there have been Trusts like the U.S. Steel Corporation, in Germany there have been Cartels (selling agencies), 'mixed works' (coal and iron combined), and Syndicates like the Steelworks Union.

BOOKS FOR STUDY.

Lilian Knowles, "Industrial and Commercial Revolutions," Part 4.

Turberville & Howe, "Great Britain in the Latest Age," (Murray, 7/6), Chapter V.

For a study of Combinations:—

J. Morgan Rees, "Trusts in British Industry," (King, 10/6.).

John Hilton, "Combines and Trade Organisations," (Harrison, 1/-).

Alfred Marshall, "Industry and Trade," Pp. 507—635.

SECTION V.

Capitalism in Germany.

Economic evolution does not follow exactly the same path, nor do its various stages synchronise in different countries, since different geographical (and sometimes racial) conditions affect it in different countries. But there is a *tendency* for it to do so, in so far as ideas spread across national boundaries and the economic condition of one country is affected by that of another. With the growth of communications and the linking up and interlacing of different industries in different countries the development of different countries has tended since 1870 to synchronise much more than it did 100 years ago.

In 1800 Germany was still in the throes of the Feudal System of the Middle Ages, which had been abolished in England 300 years previously. 80 per cent. of her population was rural. Methods of cultivation were very primitive. Town life, built up on trade and handicraft industry, had actually declined since the 17th Century. The Prussian Minister Stein made the first steps towards abolishing Feudalism, and by political reforms transferred political control to a very small extent to the towns. Serfdom (the legal binding of the worker to the land, and the compulsion to perform labour on the lord's estate) was abolished in Prussia in 1807; but it was not till after 1860 that the final traces of feudal rights were swept away. 'Enclosures' and evictions of poorer peasantry, as in England, followed the abolition of serfdom.

(N.B.—Until serfdom was abolished, no proletariat and free labour supply in the towns could exist).

As for the rest of Germany, that part which was under the occupation for a time of the French Emperor Napoleon, received from him revolutionary reforms, especially the Rhine Provinces, where serfdom was abolished, internal customs duties repealed, and road building undertaken. All these measures were necessary preconditions of the development of capitalist production (See Section 3.).

The Industrial Revolution did not come in Germany till after 1850. In 1846 there were only 136 cotton mills in all Prussia, and only 9 out of 300 furnaces in Silesia were coke-smelting. But between 1845 and 1860 the consumption of raw cotton was more than trebled, and between 1852 and 1867 the number of spindles increased by 122 per cent.

The lateness of the Industrial Revolution in Germany was due to:—(a) the late abolition of Feudalism and Serfdom, (b) the absence of capital accumulation: the merchant class of the towns had not grown rich by colonial trade as had those of Britain, (c) the absence of a developed banking system as existed in

England, France, and Holland, (*d*) the existence of a number of separate states, each with its own laws, tariffs, and restrictions on trade; consequently there was great difficulty of communication and a very narrow market for industry.

In 1838 Prussia had instituted the Zollverein (Customs Union), which broke down restrictions on trade. In the '50's railway building was begun; and in 1867 the first step to the unification of Germany—Bismarck's North German Confederation—achieved an extension of internal free trade and a co-ordination of the railway system. It was the importation of English machinery and English skilled workmen into Silesia and Saxony which was the immediate cause of the Industrial Revolution.

The second Industrial Revolution followed close on the heels of the first. In 1871 Germany took from France the Alsace-Lorraine coal and iron field, and the Thomas-Gilchrist invention enabled the utilisation of these ores, which are of a phosphoric nature (See Section 4.)

The following features of modern Germany are notable:—

1. The rapid growth of the electrical industry after 1890. The electrical combine, the A.E.G., of which Rathenau was the head, is a powerful rival of the Stinnes combine.

2. The political compromise between the Junker landowners and the industrialists. Germany, lacking Britain's ability to secure an overseas food supply, had to rely on home supply in case of war; hence her imperialists had to encourage agriculture and purchase the support of the agricultural interests. The revolution of 1918, however, marked the political overthrow of the Junkers by the industrialists.

3. The growth of Cartels and Syndicates, especially in the Westphalian iron and coal industry. There are also 'mixed works' combining coal and iron in one. The Rhenish-Westphalian Coal Syndicate of Essen, formed in 1893, controls the whole coal industry of that district, and the Steel Works Union, formed 1904, of Dusseldorf controls most of the Steel Industry. The Stinnes iron and steel combine has grown to immense proportions since the war.

4. The growth of 'commercial banks,' like the Dresdner, the Deutsche, and Disconto Gesellschaft, which make a special function of financing industry and sharing in the control of industry. The reason for this development was largely the absence of capital accumulation in private hands in Germany.

BOOKS FOR STUDY.

F. A. Ogg, "Economic Development of Modern Europe," Chapter X.

J. H. Clapham, "Economic Development of France and Germany" (Cambridge University Press.) Chapters, II, IV, V pp. 107—110, and XI.

W. H. Dawson, "The Evolution of Modern Germany," (Fisher Unwin.) Chapters II, III, V, VII, X, & XII.

Alfred Marshall, "Industry and Trade," Pp. 121—139, 544—576, 767—772.

SECTION VI.

Capitalism in France.

Unlike Germany, in France most feudal restriction had been abolished prior to 1800, and a merchant class had grown up and become wealthy through colonial trade. What the French Revolution in 1789 did was (a) to abolish the final remnants of feudal restrictions and the power of landlords (e.g. manorial courts), (b) to give political power to the middle class, (c) to shift some of the burden of taxation on to the landowners in the shape of direct taxes, (d) to break up large estates, (e) to abolish Gilds, etc., which restricted free trade and the mobility of labour, (f) to abolish internal tariffs. Napoleon, who reflected the ideas of the new period, instituted many public works such as road and canal and harbour building. Most of these conditions were necessary conditions for the development of capitalist production.

There had been a few French inventions in textile machinery such as the Jacquard silk loom in 1804. But by 1825 handicraft was still dominant, and it was not till after 1825, when Britain removed her prohibition on the export of machinery, that the importation of British machinery began to revolutionise the textile industry. In 1834 there were only 5000 power looms. By 1846 there were 31,000. In 1830 coke smelting was not yet introduced into the iron trade. By 1864 the number of coke furnaces surpassed the number of charcoal furnaces. Railway building under State direction went ahead after 1842. The commercial (free trade) treaties arranged with various countries by Napoleon III after 1852 also assisted capitalist development. As in other countries, the second industrial revolution in iron and steel came after 1870, and between 1870 and 1897 industrial output was trebled. But the change to modern large-scale industry, such as took place in Germany, U.S.A., and Britain, was in France very slight.

The chief features of the economic system in France are:—

1. The absence of large supplies of coal and iron, and the scattered nature of the supplies which do exist, have precluded the development of concentrated localised industries. Hence French industry is scattered in many different centres and not localised in a few to the extent that it is in other countries.
2. For the same reason French industry has tended to specialise and to excel in those products in which the chief features is special skill and quality rather than the economies of standardized mass production.
3. France is still predominantly an agricultural country of peasant small holders.
4. The prominence of the Banks and the importance of the 'rentier' class: the Banks by gathering in the mass of small savings of the peasants—always a thrifty class—are able to have considerable power, and to make large investments abroad.

BOOKS FOR STUDY.

- F. A. Ogg, "Economic Development of Modern Europe," Chapt. X.
 J. H. Clapham, "Economic Development of Modern Europe," Chapters I, III, V Pp. 104—7, VI Pp. 121—9, & X.
 A. Marshall, "Industry and Trade," pp. 107—120.

SECTION VII.

Capitalism in U.S.A.

During the 19th Century the dominating factor in the economic life of U.S.A. was a continuous westward expansion of population and capital, first into the fertile lands of the Middle West in the Mississippi Valley, and latter across the mountains to the Pacific Coast. This westward expansion at first provided a fertile field for capital investment; later its yield provided abundant capital accumulation. For instance, when a city like Chicago grew up within ten years, the owners of the ground sites reaped immense fortunes.

In 1850, therefore, U.S.A. was divided into three separate economic divisions:—(a) The East—the manufacturing and trading states of the Atlantic seaboard, (b) The Middle West—the farming interests, making fortunes rapidly, and forever pioneering and expanding, (c) The South—the semi-feudal, aristocratic, slave-owning interests of the cotton planters.

In the East till 1830 Domestic Industry predominated. Coke smelting was not introduced by 1840. After 1830, however, the application of machinery to industry introduced capitalist production into the Eastern States. In 1835 the electric telegraph was invented; in 1842 the Nasmyth steam hammer. In 1840 there were only six anthracite furnaces; by 1856 there were 121. There was, however, little localisation of industry as yet. Cotton factories were usually scattered about the slopes of the Alleghany Mountains, where they could utilise water power. Between 1845 and 1860 a lowering of the tariff took place to please the traders of the East.

Between 1840 and 1860 railway building took place in the Eastern States, linking the East with the Middle West. In 1854 the first railroad to the Mississippi was completed. This enabled the Middle West to find a market for its products in the towns of the East; and for Eastern manufacturers to find a market in the Middle West; and produced that binding together of the West with the East in conflict of economic interests with the slave-owning South in the Civil War of 1860. It was not till after the Civil War, however, that the manufacture of steel rails was started, enabling railway building on an extensive scale. In 1869 the first transcontinental line was completed. Between 1860 and 1870 the mileage of the railway was doubled, and by 1880 it was trebled. This was the period of railway building in the West and South.

This widening of the market produced a second period of industrial expansion between 1860 and 1870. This was further fostered by the high tariffs imposed during the Civil War and continued after it, which produced a kind of 'hot-house' develop-

ment of infant industries. Steam-power began to be used more generally in the cotton industry, and a migration commenced of cotton factories to the South, where both coal and raw cotton were available. A revolution in iron and steel production was impelled by new inventions, such as the hot-air blast and the Bessemer process. At the same time there was an immense demand for iron and steel for the new railroads under construction. During this period emigration from Europe provided an abundant and cheap labour supply.

Thus, whereas round 1840 the industrial revolution had been confined to a few states of the East Coast, and was even there limited by smallness of the market and scarcity of labour; after 1860 the Industrial Revolution spread to the Middle West and the South, and was followed closely by a further revolution and expansion on a gigantic scale in iron and steel.

The main features of Capitalism in U.S.A. are:—

1. The great speed of its growth since the Civil War. This is largely responsible for the immense wealth and power of its big captains of industry, who made fortunes within a few years.

2. The predominance of Trusts—amalgamations of competing firms under one control with power to eliminate competition and keep up prices. Many attempts have been made to 'break' the Trusts by legal action; but these attempts have largely failed. A Trust, 'prohibited' by law, merely dissolves and re-forms under a different name and a different constitution, but with similar powers. Instances are: Standard Oil Company, Steel Corporation, American Tobacco Company. The farmers of the West were the first to agitate for legal control of Trusts.

3. The high degree of specialisation and localisation of industry; the predominance of large scale-industry to a greater extent than in Europe; the concentration of capitalists on methods of efficient business *organisation*.

4. The large extent to which agriculture has been capitalised. The big American farm of the Middle West, worked with scientific machinery, is in strong contrast to the French small peasant holdings.

5. The lateness of American Capitalism's diversion of attention to overseas markets. Prior to the Civil War exports had been almost entirely agricultural. The large home market absorbed industrial products. Not till about 1880 did exports of manufactures become of great importance. Up till the end of the century there was abundant room for capitalist expansion in the West. Not till 1898 (the War with Spain and the annexation of the Phillipines) did American Capitalism become imperialistic.

BOOKS FOR STUDY.

- E. L. Bogart, "Economic History of the United States" (Longmans).
 E. C. Eckel, "Coal Iron and War," (Harrap), Chapter II.
 A. Marshall, "Industry and Trade," pp. 140—162, 507—543, 773—
 —784, 846—849.

SECTION VIII.

Capitalist Imperialism.

We have seen before how changed economic conditions necessitated corresponding changes in the political system (c.f. Section 3) and that the capitalists with money invested in the new method of production used their influence to produce these changes.

The conditions evolved by the second industrial revolution produced the following requirements:—

1. A market abroad was needed for iron and steel products. There can never be chronic over-production of *all* goods; but there may be of *some* goods relative to others; and there is a continual tendency for machines to be over-produced relative to the demand for them in other industries. Hence trade depression usually hits the iron and steel trade worst; it is iron and steel that is 'dumped' abroad most heavily, because there is no market at home.

2. The need for 'protective' tariffs to guard the home iron and steel industry from foreign 'dumping.'

3. The growing accumulation of capital in a few hands at a greater rate than the growth of opportunities for investment at home (evidenced in a falling rate of interest) made it desirable for the capitalist class to find opportunities for investment abroad, involving *export of capital*. This was favoured by the 'rentier' class.

4. The tendency to mass production entails the necessity for a large and sure supply of raw material (e. g. coal and ore). An important element in the success of a big combine is control of raw material supplies (hence vertical combinations).

Hence round about 1870 in all those countries where capital invested in iron and steel was surpassing in importance and influence capital invested in textiles, a quite sudden change in political policy took place—a change to Imperialism and Protection. Imperialism implies economic development of backward countries on capitalist lines, together with political control, direct or indirect, either through annexations and protectorates, or by 'peaceful penetration' and the appointing of advisers to native chiefs, etc.

The opening up of these backward countries gives profitable field for investment; the resulting construction of railways etc. gives markets for iron and steel; 'concessions' for the exploitation of raw material gives the big combines what they want. After 1870 Export of Capital increased greatly. Investment implies political control to safeguard the investment, whereas mere trade does not. Political control is also required by concession-hunters to prevent concessions going to the rival combines of other countries.

In Britain the Liberal policy of Gladstone of Liverpool began to give way before the Imperialist policy of Chamberlain of Birmingham. In France Jules Ferry, who in 1884 promoted the seizure of Tunis (because a railway concession had been given by the Bey of Tunis to an Italian Company), of Tonkin in Indo-China, and of French Somaliland, was the political figurehead of

the new movement. In Italy there was Crispi, who intrigued to secure Tripoli for Italy. For some time German Imperialist expansion was carried on by private companies and explorers like Dr. Peters, and there was no concerted policy directed from Berlin. But in 1900 the large-navy party (backed largely by Westphalian iron and steel interests) triumphed, and in 1907 a Colonial Office was instituted with Herr Dernburg as Colonial Minister. Dernburg was of the Dresdner Bank (see Section 5) which had large investments in the iron and steel industry.

About 1880 the scramble for Africa started. Between 1880 and 1890 five million square miles of Africa were seized by European Powers. By 1914 all Africa, except Liberia and Abyssinia, was subjected to the Powers, chiefly Britain, France and Germany. A similar scramble took place in China and the Pacific; and that scramble still goes on, with U.S.A. and Japan as the principal rivals.

Up to 1900 the keenest imperialist rivalry was between Britain and France. Cecil Rhodes promoted the idea of the Cape to Cairo railway "to pick up trade along the route." France on the other hand, wanted to control the whole of Central Africa from Senegal and Morocco across to Somaliland. British Imperialism won when Kitchener occupied the Sudan in 1898. In 1902 France and Britain came to an agreement that Britain should have a free hand in Egypt and France in Morocco. After 1900 the rivalry was between Germany on the one hand and Britain and France on the other. For, German Imperialism after 1900 became a concerted policy and the Deutsche Bank promoted the idea of the Bagdad Railway, hoping thereby to link up Berlin through the Balkans and Constantinople with Bagdad and the Persian Gulf. This endangered (a) British interests in Egypt, Persia, and India; (b) French interests in Greece and the Levant; (c) Russian interests in Persia and the Caucasus; and (d) the interests of all three in the question of Constantinople and access to the Mediterranean. This led up through the Balkan crisis and the Serbian question (Serbia was an important link in the Berlin-Bagdad chain) to the war of 1914.

BOOKS FOR STUDY.

Mark Starr, "A Worker Looks at History," Chapter XIX, pp. 140—162.

Lilian Knowles, "Industrial and Commerical Revolutions," Part VI, P. 315.

F. A. Ogg, "Economic Development of Modern Europe," Chap. XII. Pp. 271—277, 13 & 14.

H. N. Brailsford, "War of Steel and Gold," (Bell, 3/6).

M. Pavlovitch, "Foundations of Imperialist Policy," (Labour Publishing Co., 3/6.)

T. Ashcroft, "An Outline of Imperialism," (Plebs League, 2/6).

Leonard Woolf, "Economic Imperialism," (Swarthmore Press, 2/6).

Leonard Woolf, "Empire and Commerce in Africa," (Labour Research Department, 21/-.)

SECTION IX.

Features of Modern Capitalism :

(a) Money Market, (b) The 'Entrepreneur.'

Production under modern conditions is carried on *in anticipation* of demand; it exists therefore very largely on a basis of 'credit.' Take a motor car: it may not be paid for ultimately by the consumer till twelve months after its production is commenced. In the meanwhile wages have to be paid and raw material bought. This 'time-element' consequently becomes important; and some means has to be found of financing this production in advance.

The cost of the initial setting up of plant, factories, etc., is usually covered by the fixed capital of the business, subscribed at the outset by investors, who have foregone consumption, and have handed over the right to consume, which that money gives them, to a capitalist, who requires to buy plant, etc. The cost of *replacing* worn out plant and of paying the interest on the fixed capital enters, of course, into the price of the products sold.

Now, the Money Market, of which the Stock Exchange is part, is the means by which the manufacturer, who wants to raise (or borrow) capital, is brought into touch with the investor, who has money he wishes to save, in order that it may earn interest. The way it is done is for the Company to sell 'shares' in it, which gives the investor the right to a share (a 'dividend') in the Company's profits.

We have seen that Capitalism requires mobility of economic resources. The Money Market is intended to ensure mobility of capital—to ensure that capital flows into those uses where it is most needed and will yield the highest return. The investor naturally tries to invest his money in those businesses which promise the highest profits. He will be able to do so in so far as the Money Market is free, open, and honest; and if this is so there will be more tendency for capital to flow into those uses where it is most in demand, than if no Money Market existed. Often, however, this function of the Money Market is disturbed by artificial 'manipulation' of the prices of shares by powerful groups, by the fleecing of the ignorant investor through the circulation of false rumours, etc.

But a large part of the smaller expenses of production are financed by the Banks in the shape of a Credit Advance. What the Banks do is in the first place to receive 'deposits' of money from a large number of persons; and then instead of allowing them to lie idle, to lend them out in the shape of 'credit advances' to manufacturers to finance production. In a time of expansion of trade there is a great demand for credit advances, and as a result

the volume of credit advanced by the Banks is swollen. This means that the buying power of the community is swollen, and consequently prices rise. This is called Inflation. Eventually there will be an increased demand to turn 'credits' into cash (to pay wages, etc.); and the Banks finding a drain on their cash reserves are compelled to restrict their credit issue by raising the price of credit—the Bank Rate.

Another important feature of Capitalism is that production is controlled by a number of competing business men or groups of business men ('Entrepreneurs'). The amount they produce depends on the profit they are likely to get from it; the index which guides them in judging the state of demand for their goods is the index of Price. If price rises they produce more to take advantage of the higher profit. They act, not usually from scientific economic reasoning, but instinctively. Under ideal conditions of free competition supply is adjusted to demand in this automatic manner fairly well. But (a) there is an important exception to this, and (b) ideal conditions of free competition are far from being always present. The very fact that industry is organised for profit leads to the formation of Trusts and monopolies which hinder and destroy competition.

To take the exception: The Entrepreneur would be able perhaps to judge the state of demand from movements of market price, and to adjust supply to it quite efficiently, if he were the sole source of supply or were able to know the quantity his competitors were going to put on the market. But being one of many competing Entrepreneurs the supply which he will be able to market will depend upon the output of his competitors; and of this he is in ignorance. Hence, as we shall see in next section, when epidemics of optimism spread over the business world, supply may for a considerable period of time continue unadjusted to demand, with periodic over-production and dislocation as the result. Further, currency changes, which affect movements of general prices, destroy the stability of that Price Index, on which Entrepreneurs rely for their judgment of the state of demand.

Hence capitalist organisation of industry is a very delicate apparatus, which under ideal conditions may because of its delicate responsiveness work very smoothly; but it is very easily dislocated by any adverse circumstances, e.g. the late war.

BOOKS FOR STUDY.

J. A. Todd, "The Mechanism of Exchange," (Humphrey Milford), Chapters IX., X., XII., XIII.

Hartley Withers, "The Meaning of Money," (Murray, 6/-).

Emile Burns, "Modern Finance," (Humphrey Milford, World of To-Day Series, 2/6).

Also another syllabus in this series by Burns on Finance. A larger book on the theory of the Money Market:—

F. Lavington, "The English Capital Market," (Methuen, 18/-).

The method of raising capital and forming a company is explained in:—
"Outline of Economics," (to be published by the Plebs League), Chapter I.

SECTION X.

Features of Modern Capitalism:

(c) The Industrial Cycle.

One of the chief features of Capitalism has been the industrial cycle, recurring with surprising regularity every 8 to 10 years. Thus in Britain the critical point in these cycles occurred in 1825, 1830, 1836, 1847, 1857, 1864, 1873, 1882, 1891, 1907. Those in U.S.A. almost corresponded with this. First, something, such as a good harvest or an important invention gives an impetus to trade; and for several years there is a trade boom, with its expanding production, good employment, high profits, and rising prices. Then a reaction sets in; the tide turns, depression spreads over the business world, and there is reduced production, unemployment, bankruptcies, falling prices. What is the cause of this?

Roughly, it may be said that a trade depression occurs because of a tendency for the various parts of the economic mechanism to get out of adjustment with one another; hence for a time smooth working is prevented, until readjustment takes place.

The demand for machinery depends on the activity of industry in general. It is clear, therefore, that if the industries making machines, factories, etc. (Constructional Trades) expand faster in proportion than do other industries making finished goods, there will be a temporary 'glut' of constructional goods; and this can only be remedied by a temporary 'slowing down' of the Constructional Trades, until the expansion of the others has 'caught up level' again.

Under competition there is a continual tendency for expansion in the Constructional Trades to go ahead faster than that of other industries. Orders are placed for machines only about once every ten years. The demand for them is *periodic*, not continuous. At the start of a trade boom, there is a tendency for a large number of orders to be placed for new machines, etc. Prices of these things consequently rise, and continue to rise with demand, until more supply is forthcoming. Orders pile up and cannot be executed at once. Production and plant in the constructional trades are expanded to take advantage of this boom. But the orders once placed will not be placed again for several years, since machines 'last.' Therefore it is soon found that there has been over-expansion in the constructional trades; more labour and capital have been drawn into them (by the attraction of high prices and high profits) than is actually needed. Hence they have to 'slow down,' until expansion in other trades 'catches up level,' and more orders for machines are forthcoming.

But the difficulty does not stop with the Constructional Trades. It affects the rest of industry as well. Factories in the constructional trades 'close down,' and their workers are unemployed. These workers consequently cannot buy the products of other industries, and these industries, finding demand falling off, 'go slow' too. The depression once started spreads like an epidemic, and reinforces itself. The longer constructional goods take to make and the more orders pile up, the worse is the ensuing depression; for it is not till orders mature, and products come on the market, that manufacturers realise that over-production exists; and in the meanwhile the prevailing optimism has caused capitalists to employ more workers and set up more plant to take advantage of the profits of the constructional boom.

This cycle of trade is reinforced by currency influences. During a trade boom capitalists appeal to bankers for credit advances, with which to expand their production. This expansion of credit raises prices (c.f. Section 9). This further increases the optimism of business men, and their errors of judgments are consequently greater, and hence their over-production. Conversely falling prices accentuate a trade depression. It is to be noted that any system of industry which so co-ordinated production as to limit competition with its tendencies for capitalists to make errors of judgment about the market in their attempts to outbid rivals, would lessen the tendency to such over-production. The Industrial Cycle is, therefore, almost entirely a feature of *capitalist* industrialism, and not merely of industrialism.

To understand the Industrial Cycle is important, because (a) it underlies the problem of Imperialism (see Section 8), (b) it produces continual instability of employment, prices, and wages, and so increases industrial friction—the Class Struggle.

BOOKS FOR STUDY.

F. Lavington, "The Trade Cycle," (King, 3/6).

Borchardt, "The People's Marx," (International Bookshops, 3/6).
Pp. 264—283.

A larger book, abounding in facts and statistics of great value:—

Dennis H. Robertson, "A Study of Industrial Fluctuations" (King, 7/6).

SECTION XI.

The Theory of Capitalist Production.

The case usually put forward in favour of capitalist organisation of industry is as follows:—

1. The Modern industrial system is so complex, that it needs a very intricate mechanism to co-ordinate its various parts so that the whole runs smoothly—to co-ordinate supply and demand, and to direct capital and labour into those uses where they are most productive, i.e., yield the largest return measured in money. This function is known as the Entrepreneur Function. The advantage of capitalist organisation is that this adjustment is secured *automatically*. The Entrepreneur following his desire for profit *instinctively* fulfils his function as a cog in the machine. True, there are wastes and maladjustments, but so there are in any system; and might not a system which abandoned this automatic device be more clumsy in its adjustment?

2. True, there are inequalities of wealth, and investors receive interest for doing nothing. But the number of rich persons is so small as compared with the large number of poor, that to divide what the rich spend equally would only raise the standard of life of the mass by a very small amount. (See Bowley, 'Division of the Product of Industry'). Saving has to be done to provide the capital necessary for industrial progress. This 'postponing of consumption' would be necessary under any system. Under Capitalism society takes the relatively cheap course of paying a small class a certain amount to do this 'saving' for it. If this secures rapid industrial progress, and enables a rise in the whole standard of life, as it demonstrably did during last century, surely this "surplus value" is a cheap price for society to pay?

The reply to this is as follows:—

1. The ideal conditions favourable to this automatic adjustment are seldom present. Competition results in a continual tendency for over-production of certain classes of goods relative to others see (Section 9), and the result is the wastage of recurring trade depressions. Further, the fact that industry is organised for profit means that out of competition develops monopoly; and although this supplanting of competition may not be very widespread, it occurs at the most vital points of the industrial machine—iron and steel, transport, etc. Moreover the retention of some of this automatic adjustment, e.g. the regulation of production according to the index of Price, is not inconsistent with other forms of ownership and control of industry. It would, in fact, be necessary for the fulfilling of the Entrepreneur Function in a Socialist or Communist Society.

2. It is true that scientific economics cannot be concerned

with the abstract 'right' of inequality. All that it is concerned with is whether capitalism as an economic machine 'works' in the sense of producing the things men want. The point about inequality of wealth is that its psychological effect is to cause discontent, and so to hinder the smooth working of capitalism. The fact is that profit and interest are a monopoly payment, due to the fact that the capitalist class have a monopoly of land and capital, and the proletariat is excluded from possession (see Section 2). The result is that the proletariat is impelled in self-defence to organise a monopoly of labour-power, and first to lessen and then to destroy the capital-monopoly. This gives rise to a continual conflict—the Class struggle. The Industrial Cycle with its recurring unemployment and wage reductions accentuates it. As industry is organised on a larger scale the workers organise more solidly as a class, and more and more energies are wasted in this conflict, and at times the whole industrial machine is dislocated by it. This Class Struggle is a direct product of the class system on which capitalist production is based.

3. The conditions of capitalist production give rise to imperialist rivalry, which produces wars. Wars are destructive, not only of material wealth, but of the delicate apparatus of capitalist organisation. Moreover, when war lowers productivity and destroys capital, the burden in the shape of lower wages by the laws of capitalist production falls on the workers, and this intensifies the Class Struggle.

The following have been the chief economic theorists of the last century:—*Dr. Adam Smith* wrote "*The Wealth of Nations*" in 1776. He attacked Mercantilism, and was the spokesman of the new conditions of textile capitalism in pointing out the advantages of free trade and mobility of labour. *David Ricardo* wrote between 1800 and 1830 and adopted many of Smith's ideas. He developed the Theory of Rent. Rent of land was a surplus, due to the *difference* in fertility of various soils. As population increased and poorer soils had to be used, the rents of the better land would rise. *Malthus* tried to show that poverty was due to over-population. *J. Stuart Mill* (about 1850) developed many of the ideas of Smith and Ricardo, and gave the economic sanction to the Liberal social reform movement. Higher wages meant higher efficiency. *F. List*, the German, and *Carey*, the American, opposed to Smith's Free Trade doctrine an economic defence of Protection as (a) a support of national self-sufficiency (b) a means of nursing infant industries. Their thinking was the product of the different environment of those countries. *Karl Marx*, who published "*Das Kapital*" in 1867, showed that profit and interest were a 'monopoly rent' or 'surplus value' due to the class system. From his analysis of capitalist production he revealed two dynamic tendencies of capitalism—the industrial cycle and the class struggle—which would ultimately bring about Capitalism's collapse. *Prof. Jevons* (about 1870) and also *Prof. Wieser* and

Boehm-Bawerk of the Austrian School worked out a new theory of value, called the Theory of Marginal Utility, which dealt with the psychological factors affecting economic value. Prof. Irving Fisher of America has said that the economic basis of 'interest' is the psychological fact that men as a rule value money in the present more than money in the future. Dr. Marshall, of Cambridge, developed the ideas of Jevons. His important contribution to economic thought has been his emphasis on the importance in modern industry of the Entrepreneur Function—the distribution of labour, capital, and land to those uses in time and space where they can be most productively employed. Prof. Pigou in his "Economics of Welfare" published in 1921 has applied and developed the ideas of Marshall in many directions, especially in problems of labour and taxation and monopoly.

BOOKS FOR STUDY.

- Hartley Withers, "The Case for Capitalism," (Nash, 7/6).
 Bubarin and Preobrazhensky, "The A.B.C. of Communism," (Communist Party, 3/- & 5/-), Pp. 98—137.
 G. D. H. Cole, "Chaos and Order in Industry," (Methuen, 7/6)
 Gide & Rist, "History of Economic Doctrines."

SECTION XII.

The Present Position of Capitalism.

What has been said above about the Industrial Cycle and Imperialism is of the greatest importance in understanding the world position to-day.

After a short period of uncertainty immediately after the armistice in 1918, Britain and U.S.A. saw throughout 1919 and the early months of 1920 an almost unprecedented 'boom.' This was *in spite of* the economic chaos of Central Europe and Russia and the close of those markets. The boom was largely due to orders for replacement of plant and of stocks which had gone unreplenished during the later years of the war. There was special activity of this kind in the South American market. Shipbuilding was stimulated by orders to replace tonnage losses due to the submarine campaign. The boom was further stimulated by the continuation of currency Inflation—the printing of Treasury Notes as the necessary condition of Government borrowing from the Bank of England. (c.f. Section 10.)

In April 1920 the tide began to turn. The replacement orders, from their very nature, temporary, became satiated. The Bank of England decided about this time to put a limit to fresh issue of Treasury Notes. A bad monsoon in India destroyed the purchasing power of the Eastern market. Exports to the East and South America slumped. Then it was that the full effect of the collapse of the European market was felt. The organic disease had been there all the time. The Eastern market had merely acted as a temporary stimulant to the patient. There followed a severe depression, fall of prices, and unemployment.

The important factors in the present position of world capitalism are briefly as follows:—

1. The war has resulted in the destruction of wealth and the intricate economic organisation of industry (the international division of labour). Europe lived on her capital during the war. Money usually invested in upkeep of roads, houses, railways, etc., or in capital development was spent on immediate military requirements. Hence the productivity of industry is everywhere lessened, and the demand for labour (in the shape of capital to give employment) is lessened.

2. In addition the maladjustment, which is the characteristic result of a trade boom (see Section 10), has been greatly intensified by currency inflation and by the prolongation and intensification of the boom after the war. A large mass of fluid capital has been crystallised in fixed plant, which is useless; e.g. there has been vast over-investment in shipbuilding plant, the productive capacity of which is 114 per cent. greater than in 1918. Consequently there is shortage of available capital in fluid form

for other necessary purposes, e.g. housing, reconstruction of Central Europe, etc. But not only is there maladjustment between industries in one country, but there is maladjustment between the economic systems of various countries. There is over production in Britain and America, because there is under-production in Central Europe, and hence the people of Central Europe have not the means of buying British and American goods. This dislocation of the international division of labour is partly due directly to the war, partly to fluctuating exchanges, partly to post-war political arrangements, and post-war Imperialism.

3. The slumping of the foreign exchanges is due to the inflation of currencies (i.e. printing of paper money) aggravated by the actions of speculators in foreign exchange. This inflation is due to inability of governments to balance their budgets. It is *unsteadiness* of exchange rates that is the evil. Its evil results are:—(a) hindrance to trade owing to increased risk to merchants through unstable values of money, (b) it gives a premium to exporters in countries with a falling exchange, and encourages dumping from those countries; this disorganises production in the countries which suffer from dumping, and (c) they in self-defence are induced to impose protective tariffs against this dumping, and these tariffs still further hinder trade.

4. The readjustment of these conditions is at present prevented by the imperialist rivalry of the victorious Powers. France's desire to crush Germany and extort reparations from her is preventing stabilisation of the mark. The burden of armaments prevents financial reform in many countries, e.g. France and Poland. The influence of French financial groups, which have made investments in Poland, Czecho-Slovakia, Hungary, etc., is a big factor in the militant nationalism of those countries. Concession-hunters, e.g., in Oil, scramble over Central Europe and Russia. The rivalry of the oil combines of Britain and America was a powerful influence behind the Genoa and Hague Conferences. The rivalry of financiers and concession-hunters was a large factor in the recent Near East crisis. As long as Imperialist rivalry continues, sectional interests are likely to predominate, and readjustment be prevented.

5. The Imperialist rivalry in Africa before the war has been transferred and continued in quite as acute a form in China since the war. Japan has already seized Shantung and occupied Siberia, and Japanese capitalism eyes greedily the raw material resources of Manchuria and North China. U.S.A. objects to this expansion, and seeks by controlling the educational system to get a lever of political power. British economic expansion is mainly in South China. The chief 'raison d'etre' of the Washington Conference was China, and U.S.A. succeeded in detaching Britain from alliance with Japan. This imperialist rivalry is as pregnant with warlike possibilities as was the rivalry in Africa and Persia prior to 1914.

BOOKS FOR STUDY.

Trotsky and Prof. Varga, "The World Economic Situation" (Communist Party, 3d.)

Maynard Keynes, "Economic Consequences of the Peace," Chaps. I, II, VI & VII.

Maynard Keynes, "Revision of the Treaty (Macmillan, 7/6), Pp. 92-92, Chaps. 6 & 7.

"Year Book," to be published shortly by the Labour Research Department.

H. N. Brailsford, "After the Peace," (Leonard Parsons, 4/6).

Bertrand Russell, "The Problem of China," (Allen & Unwin, 7/6).

For the Currency and Exchange situation:—

Gustav Cassel, "The World's Monetary Problems," (2/6).

Hints for Students and Class-Leaders.

1. To Students.

(a) Neither the syllabus nor the lectures of the tutor or class-leader are a substitute for independent reading. You cannot profit by a course unless you read steadily in addition to listening and joining in discussion.

(b) You will get a grip of your subject best by writing. Make written notes as you read as well as in class, and try to put your impressions on paper in the form of essays and written work. Never mind making mistakes or writing badly. Practice is the only way to do better. An essay on half a sheet of notepaper, or a personal letter to the leader on some point that wants clearing up, will give you a start if you feel in a difficulty. It is of vital importance to you to be able to express yourself clearly on paper. It clears up your thinking and it adds greatly to your power to influence others.

(c) When you are reading, remember that a book is a tool. Read carefully, but don't waste time in being too careful. There are many books of which it is worth your while to read a few chapters or even a single chapter, but not worth your while to read the whole. Read that part of a book which contains the information you want. Learn, by practice, how to use the index to find what you want. Too hasty reading and too slow and conscientious reading are both enemies of successful study. Use your books as you use your tools. Learn also how to use your Public Library. Find out what it contains, especially if it includes a reference library, and get a sympathetic librarian or assistant or friend to teach you how to make full use of it.

(d) Take part in discussion. Heckle the class leader well on any point on which you are unsatisfied or in doubt. But, both in questions and in discussion, stick to the point, and see that your fellow-members stick to the point. Discussions that are all over the shop are of no educational value.

(e) Regard the class, not as an end in itself, but as a means and a starting point. Try to learn how to follow up for yourself the points which interest you. Don't be content with what the class-leader tells you. Find out things for yourself.

(f) Attend regularly and punctually. It is no good belonging to a class unless you give it first claim before all other engagements. If ever you miss a class, make up the loss by specially careful reading, and ask the class-leader to help you on any doubtful point.

(g) Remember that for every worker who attends a class, there are still a thousand who don't. Try to equip yourself

to be a class-leader and so help in the movement for working-class education. Try to get your Trade Union and other Societies to which you belong to take up educational work as a serious part of their functions.

2. To Tutors and Class-Leaders.

(a) This syllabus is not intended to bind you down, but merely to help you. Modify it as you like, wherever possible with the co-operation of the class. Expand here, contract there: recommend for reading the books you think best. The syllabus is only meant as a *general* guide to method of study. But, where you modify it, let the students know in advance exactly how you propose to treat the subject.

(b) See that the class is as well as possible supplied with books. Get a book-box from one of the bodies which provide them (Club and Institute Union, Fabian Society, Tutorial Class Libraries, Central Library for Students, &c.). Select the books carefully, yourself. See that the students make the fullest use of the Public Library (and its Suggestion Book). Talk to them about books and how to read and use them.

(c) Wherever possible, get the students to do written work, and make this as easy as possible for them by hints on writing, suggestions of subject and treatment, and so on. How much and how good their written work is depends largely on you.

(d) Stimulate questions and discussion, and don't do all the talking yourself. You should need to do progressively less as the class gains in knowledge and group cohesion.

(e) Don't be content with merely taking the class. Do all you can to give each student individually the help he needs.

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