British path to capitalism: The rise of Individualism against Mercantilism, or how economic thought discovered social classes
1. Introduction

This period is perhaps best characterized by the period in which the various ideas and concepts that will be synthesized and investigated in the Classical period will be articulated in their developed form. Among these we can mention

a. Critiques of Mercantilism (On trade, on interest, and on money)
   Dudley North, David Hume, James Steuart

b. The rise of individualism (Shifting class configurations)
   Thomas Hobbes, Dudley North, Bernard Mandeville

c. Theories of value (subjective utility, cost of production, and labor)
   William Petty, John Locke, Nicholas Barbon

d. Theorizing primitive accumulation, social classes (wage, rent, profit)
   William Petty, James Steuart
2. The Enlightenment

The origins of Enlightenment can be stretched back to the early seventeenth century and to the writings of Francis Bacon (1561-1626) and René Descartes (1596-1650). Bacon’s Novum Organum (1620) was a manifesto for experimental, empirical science. Descartes, who is famous for “Cogito ergo sum,” established the primacy of reason in scientific thought. These two figures could be identified as the two tendencies of positivism: empiricism and rationalism.
2. The Enlightenment

Royal Society (1662) / William Petty’s *Political Arithmetick* (1690), the first statistical text!

But the other figures are, in England, Locke (political philosophy) and Newton (science), and in France, Diderot (1713-84), on relativity of knowledge and morals, and Montesquieu (1689-1755), on the rule of law. Diderot (along with d’Alembert), edited an encyclopedia that would bring together all human knowledge and serve to propagate new ideas. Between 1751-1772, despite censorship, they published 28 volumes!
3. Historical conditions of the eighteenth century

1. Spread of commerce and growth of competition led to a reduction in the profits that could be made simply from taking advantage of price differentials.

2. Deepening of the process of primitive accumulation. Increasing productivity in agriculture released more and more unemployed/displaced people who will slowly be employed by the manufacturing sector. Increasing poverty.

3. Integration of capitalist control over production transformed many merchant capitalist or small scale guild Masters in to “industrial” capitalists and Journeymen into hired workers. But, note that “industrial capital” is different than industrial revolution which will really happen in the nineteenth century!
4. Critiques of Mercantilism

a. Restrictions imposed upon Foreign Trade

b. Legal limitations place upon the level of interest

Dudley North (1641-1691): A prominent merchant, and later on, a Commissioner of the Customs. An early critic, an early defender of free trade.

For Mercantilists, (foreign) trade was exchange of a product, a use value, for money, or exchange value. (M-C-M’)

For North, foreign trade was an exchange of certain products for others. (C-M-C’)

Money is a medium.
4. Critiques of Mercantilism

On trade: If trade prospers or declines the cause is not to be found in the inflows and outflows of money; to the contrary, an increase in the quantity of money is consequent upon a growth of trade. (58)

Commerce suffers not from shortage of money, but from a break in the steady flow of commodity exchange. (59)

Whether it be an individual or an entire nation, enrichment will come not by accumulating ready money, but only continuously throwing it back into circulation as money capital—as profit-bearing money. (60)

...the road to prosperity lies not in the accumulation of money hoards, but in the growth of trade and a rise in the general mass of profit and capitals. (60)
4. Critiques of Mercantilism

On interest: ...demanded the repeal of the legal limit upon the rate of interest, arguing that it contravened the ‘natural’ laws of capitalist economy. (62)

   Class conflict between the landowning class and the money capitalists over the level of interest.

   A fall in the level of interest rate benefits landlords (1) debt payments go down; (2) the price of land would go up. Why?

North: If the level of interest is to fall it will come from the unhindered expansion of trade, and not out of compulsory regulation.
4. Critiques of Mercantilism

David Hume (1711-1776): philosopher and political economist. Defender of free trade, an anti-mercantilist theory of interest, and quantity theory of money.

On free trade: “In the course of commerce the precious metals will be distributed between individual countries proportionately to their ‘trade, industry, and people’.” (80) If the quantity of money exceeds this normal level, it will flow out of the country; and vice versa.

On interest: The level of interest depends upon the following three factors: (1) the volume of demand for credit, (2) the number of capitals that are free and seeking investment, and (3) the size of commercial profits.

The abundance of money and a low interest rate conditioned by the expansion of trade and industry.
4. Critiques of Mercantilism

Hume’s quantity theory of money: Against the Mercantilist idea that rising quantity of money is a powerful stimulus to the expansion of trade and industry, Hume argued that the value of money is determined by the latter’s overall quantity. Nominalist perspective?

- increase in the quantity of money $\rightarrow$ rise in commodity prices
- rise in commodity prices $\rightarrow$ less competitive on the world market

Underlying economic process: Increased quantity of money (precious metals) from trade to colonies $\rightarrow$ expansion of demand for labor $\rightarrow$ labor becomes scarce, wages go up $\rightarrow$ higher wages translates to increased demand for goods $\rightarrow$ gradually leading to a general rise in the level of prices.

*Regarding “price revolution”: rising prices of commodities were reflected a fall in the value of the precious metals themselves.
4. Critiques of Mercantilism

What about “hoarding”? If there is hoarding, price level will not rise. So, what determines the quantity that enters into circulation?

James Steuart (1712-1780) argues that it is the demands of commodity circulation (including the prices of commodities) that determines the quantity of money in circulation. The level of commodity prices depends upon other causes than the quantity of money within a country: ‘the complicated operations of demand and competition’ (85); ‘the state of trade, manufactures, modes of living, and the customary experience of inhabitants’ (85);

Taking the total mass of money, one part enters into circulation; what remains over and above the money that commodity circulation requires lies outside the latter, either to be accumulates as a hoard (reserves) or as articles of luxury. If commodity circulation’s demand for money expands, part of this hoard is put into circulation... (85-6)
5. The rise of individualism

There are three important forerunners of Individualism: Hobbes, North and Mandeville.

**Historical Context in England:** The political turmoils of the seventeenth century

   Charles I versus the Parliament; the Protectorate under Oliver Cromwell; the Return of the Stuarts; and finally the establishment of a constitutional monarchy under William of Orange (r. 1689-1702).

All this turmoil raised fundamental questions about the basis on which society was organized.
5. The rise of individualism

The focus of the debate was on the nature of men’s attitudes, namely his passions: greed, envy, lust and so on.

If religion and moral teaching cannot contain them, what will help the society from disintegration as a result of these destructive passions?
5. The rise of individualism

Thomas Hobbes (1588-1679) whose *Leviathan* (1651) is a key text on the selfish nature of human beings. He believed that destructive passions such as the desire for riches, glory and power could be checked by counterveiling passions, also known as “interests” such as the fear of death, the desire to live comfortably, etc. Before the civil war, the concept of interest was applied only to the state (i.e., the nation’s interests). After civil war, it began to be applied to groups and individuals within the nation. By the eighteenth century, the term is regularly applied to individuals who are assumed to be motivated by “love of gain” (David Hume).
5. The rise of individualism

According to Hobbes, the civil society was possible only if there is a government to make and enforce laws. Without a government, the society will revert to the state of nature. The state of nature is the state of generalized war: war of all against all. The result would universal fear and insecurity. Property would be insecure (post-enclosure), contracts would be unenforceable (trade).

Hobbes argued, if the society would choose a sovereign who would become both lawgiver and law-enforcer, then the civil society would become possible. But the sovereignty should be absolute. To impose limitations on sovereignty would create conflict, ultimately resolvable only by war.
5. The rise of individualism

Dudley North (1641-1691) believed that all men were motivated primarily by self-interest and should be left alone to compete in a free market if the public welfare was to be maximized. As we saw above, he was for free-trade and against the multifarious regulations and restrictions in trade that characterized the late mercantilist era.
5. The rise of individualism

Bernard Mandeville (1670-1733) in his *The Fable of the Bees: or Private Vices, Publick Benefits* puts forward the seemingly paradoxical idea that the vices most despised in the older moral code, if practiced by all, would result in the greatest public good. Selfishness, greed, and acquisitive behavior (namely, consumption instead of saving) all tended to contribute to industriousness and a thriving economy. He also believed that low wages would ensure an adequate supply of labor (i.e., he thought that the labor supply curve would be downward sloping). He argued that one should accept men and women as they are and not try to moralize about what they should be. The role of government was to take humankind as it is, full of vice, and by rules and regulations channel its activities toward the social good.

**Question.** What are the similarities and differences between Hobbes and Mandeville’s positions?
6. Theory of Value

Canonist writers of the 13\textsuperscript{th} : “...the value of a product depends upon the ‘quantity of labour and the outlays’” (65)

Just price (normative) vs. competitive price (descriptive)

Price formation via regulation

\[ \Rightarrow \]

Spontaneous price formation via market mechanism

When did the search for law-determined regularity which lies behind price begin? Not yet.

During early capitalism, an early version of the theory of supply & demand was being articulated by John Locke (1632-1704) and Nicholas Barbon (1640-1698), paving the way toward the theory of subjective utility.

‘The value of all commodities derives from their usefulness,’ and it changes with changes in the ‘humour and the whims of the people who make use of them’
6. Theory of Value

Early theories of value virtually renounced the task of discovering the law-determined regularities behind price formation.

With the advance of industrial capitalism, the structure of price formation changed. The industrial capitalists had to recover the costs of production incurred in the manufacture of a commodity. This lead to the emergence of the theory of cost of production.

James Steuart (1712-1780): Distinguished between the real value of the commodity and the profit upon alienation. Profit is “the surplus of a product’s price over its costs of production” (68)

Costs of production: the value of the workmen’s means of subsistence, the value of the implements and the value of raw materials.

Being a true mercantilist, Steuart supposes that the sale price of a commodity will exceed its ‘real value’, and that the capitalist’s enrichment derives from ‘profit upon alienation’, ‘which will ever be in proportion to demand, and therefore fluctuate according to circumstances. (68)
6. Theory of Value

William Petty (1623-1687): A polymath, interested in the quantitative side of economic phenomena, wrote the first quantitative empirical economic treatise, Political Arithmetick (1690).

The problem of price and the early labour theory of value:

(Not the market price, accidentally determined by ‘extrinsic’ causes, but the ‘natural price’ which depends upon ‘intrinsic’ factors.)

The magnitude of a product’s value depends upon the quantity of labour expended on its production.

The components of value:

The in natura size of rent is determined by deducting the articles of the worker’s consumption (his wages) and the costs of his means of production (his seed) from the total product. (70)
William Petty’s Concepts of Value Theory

<table>
<thead>
<tr>
<th>Exchange Value</th>
<th>Use Value</th>
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<tbody>
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<td>Labor as the source of value</td>
<td>Labour and land as the source of value</td>
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<td>Deduction of the value of land from labour</td>
<td>Search for ‘a par between land and labour’</td>
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<td>Measure of value is quantity of labour</td>
<td>Measure of value is the value of labour</td>
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<tr>
<td>Rent is determined by deduction of the worker’s means of consumption from the total product</td>
<td>Wages are found by deducting rent from the total product.</td>
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7. The problem of primitive accumulation in pre-classical thought

William Petty (1623-1687): He had a vision for England, where the focus shifted from agricultural production to export-oriented manufacturing and build-up of sea power.

Petty assigned government the responsibility for the creation of a new social division of labour (NSDL), where household economy is destroyed and a willing-to-work-for-wage labor force is created. NSDL (and technical division of labour within the workshop) caused increased efficiency and increased wealth.

According to Petty, the law “should allow the Labourer but just wherewithal to live; for if you allow double, then he works but half so much as he could have done, and otherwise would” (1662, 87).
7. The problem of primitive accumulation in pre-classical thought

James Steuart’s (1712-1780) comparison slavery with wage labour:

Slavery was a “violent method for making men laborous in raising food” (1767, 1:51).

In the past “men were... forced to labour because they were slaves to others; men are now forced to labour because they are slaves to their own wants” (1:52).

“Those who become servants for the sake of food, will soon become slaves” (1:28).

“I am very far from wishin to see any industruous person in distress for want of food... But I think... that the more soberly our lowest classes are made to live at all times, the cheaper may our manufactures be sold” (2:210).