

THE RISE OF MODERN CAPITALISM

DEFINITION: Capitalism is the economic system under which the means of production, distribution, and exchange are, for the most part, privately owned and controlled. Private ownership for private profit. Entrepreneurs put up the capital for a business, and in exchange for "taking the risk" receive a profit.

BACKGROUND

1. Guild System - Middle Ages. Guilds regulated price, quality, training, membership. Guilds had social and welfare benefits for members.

By end of Middle Ages, guilds had become so exclusive it was difficult for journeymen to become masters. Workers began to leave the city and set up small workshops in their cottages.

2. Domestic System - Work done in homes. Often middleman with some cash purchased the raw materials and had the workers convert these materials into finished goods at home. Middlemen then sold these goods on the market at a profit.
3. Rise of Factories - Industrial Revolution. New sources of power and need for large machines and quantities of raw materials necessitated building of factories. Workers left their home shops and became wage laborers in mills and factories. (a) the employers owned the raw materials, machinery, and workshops. They also sold the goods. (b) often work was broken down into specialized tasks (division of labor). This resulted in greater efficiency, lower costs, and lower prices. Large-scale production became possible.
4. Growth of Capitalist Class. Owners of factories were called capitalists because they invested capital (wealth used to produce more wealth) in their businesses.
5. Laissez-faire Capitalism - Capitalists in general disliked the existing system of state control and regulation of business (mercantilism) They advocated laissez-faire (let business alone) in which they called for freedom of business from governmental interference.

CHARACTERISTICS OF CAPITALISM

1. Means of production (factories, mines, shops, etc.) are privately owned, although they may be subject to much regulation by the government.
2. Employers furnish raw materials, machinery, and other facilities; workers furnish labor.
3. Owners get profits; workers get wages. Often managers are hired by owners at a salary.
4. Many plants have become huge so that employer seldom knows, or even sees, his employees. Relations between employer and employee are said to be "impersonal).
5. Wage-earners are dependent on the employers or capitalists for jobs.
6. Most large businesses today are owned by corporations, rather than individuals. Corporation makes it possible to raise the huge sums necessary for big business.

THE RISE OF MODERN CAPITALISM, contd.

ECONOMIC RESULTS OF THE INDUSTRIAL REVOLUTION. - The ways in which people make a living, and the kind of living they make, have been profoundly affected by the Industrial Revolution.

1. The machine became the key factor in production and the symbol of the new age.
2. Power was harnessed to run the machines. New sources of artificial power found.
3. Factory became center of production.
4. Amount produced by each worker (per-capita production) showed a steady increase. Gradually increased wages made it possible for average worker to buy many factory produced items. Standard of living raised for average person.
5. Division of labor widely introduced.
6. Old skills lost; jobs tended to become more simple and monotonous.
7. Capitalism replaced domestic system of production.
8. Workers became more dependent on employers and less secure in their jobs.
9. Working conditions in early factories and mines bad.
10. Labor unions organized to help workers win higher standards.
11. Unions and capitalists engaged in economic warfare.
12. International trade increased as manufactures sought markets for surplus goods (and needed raw materials). World market developed.

SOCIAL RESULTS

1. Higher standard of living eventually resulted - more and more goods produced at a lower cost.
2. Cities grew rapidly.
3. City growth led to social problems (crime, slums, public health, transportation, pollution).
4. Women and children entered industry.
5. Increased leisure resulted from gradually shortened work day made possible by greater efficiency of machines.

POLITICAL RESULTS

1. Democracy advanced as middle class and the working class received the right to vote.
2. Industrialist class replaced the aristocracy as dominant element in government.
3. Mercantilism replaced by laissez-faire capitalism. Laissez-faire gave way to regulated capitalism.
4. Women gained various privileges.
5. Some nations proved unable to solve problems of Industrial Revolution (insecurity, unemployment, poverty, depressions) new types of political and economic systems developed (communism, nazism, fascism).
6. Industrialized nations became leaders of world.
7. To obtain markets, raw materials, and outlets for investments of surplus capital, nations became imperialistic. Imperialism helped to bring on wars.

SOURCE: Mastering World History
Keystone Educational Press, pp. 159-162