On the Definition of Capitalism and Its Implications for the Current Global Political-Economic Crisis

Submitted to:
The International Conference on Cultural Diplomacy & the UN.
“Cultural Diplomacy and Soft Power in an Interdependent World: The Opportunities for Global Governance”

New York and Washington, D.C.
February 21-24, 2012

By
Ronald Edsforth
Department of History
6107 Carson Hall
Dartmouth College
Hanover, NH 03755
U.S.A.
<Ronald.Edsforth@Dartmouth.edu>

Please do not quote or reproduce without the written permission of the author.
Most arguments about capitalism and the desirability of enacting economic and social reforms in capitalist societies suffer from faulty thinking that follows from flawed ahistorical definitions of the word “capitalism.” In the interests of improving intellectual and political discussions of capitalism, and finding solutions to the current global political-economic crisis, I offer the following definitional thoughts, historical observations, and logical implications.

I.

Capitalism is NOT a structure or a system.

Capitalism is a LOGIC capable of transforming the world and itself.
(Michel Beaud, A History of Capitalism, 1500-2000, 2001)

Capitalist logic is NOT natural.

Capitalist logic is a product of history. It is a human invention, NOT a set of natural laws discovered by the men venerated as the founders of modern economics (Smith, Ricardo, Malthus, et. al.).

Capitalist logic is neither moral nor immoral. Capitalist logic is amoral.

No society has ever organized all its human relationships and institutions according to the logic of capitalism. Therefore there is great variety among the societies that employ capitalist logic. Canada, Norway, France, Japan, Brazil and the United States are all called capitalist societies; but they differ greatly in the extent to which capitalist logic is used to organize economic activity, social institutions, and human relationships. China is a one-party Communist state that nevertheless uses capitalist logic to organize much of the economic life of its people.

All attempts to impose the totality of capitalist logic (a human invention) on society are idealistic and utopian. Therefore they always evoke a simultaneous resistance from groups in society who have not embraced capitalist logic.
(Karl Polanyi, The Great Transformation: The Political and Economic Origins of Our Time, 1944)
All attempts to impose the logic of capitalism on any part of society require a great deal of government activity aimed at establishing and maintaining new capitalist practices, as well as the constant suppression and/or cooptation of those opposed to these new practices.

Historically, the primary sources of resistance to the imposition of capitalist logic have been groups and institutions committed to alternative social logics including religious logics, paternalistic logics, and socialist logics.

These same political fault lines between proponents of capitalism attempting to further the imposition of capitalist logic, and groups committed to alternative social logics have appeared across the globe since the 1980s.

Like capitalist logic, religious, paternalistic and socialist logics each have their own histories. They differ from capitalist logic in many fundamental ways. But most importantly they all construct human beings as social beings who have moral obligations to each other.

Socialist logics—there are more than one, just as there are more than one religious and paternalistic logics—start with the moral premise: from each according to his abilities, to each according to their needs. Socialist logics inform the contemporary political-economic practices of what are sometimes called mixed economies, welfare states, and/or social democracies.

II.

The most important fundamental principle of capitalist logic is that anything real or imagined can be constructed as a commodity.

Commodification precedes market exchange. Without commodities there can be no capitalist markets.

Capitalist commodities can and do include clean air and dirty air; clean water and dirty water; clean soil and polluted soil; human health, body parts, genes, life itself; as well as human activity including labor, leisure, and sexual intercourse.
There are no moral restraints on the creation of commodities. Capitalist logic does not permit the assignation of intrinsic values to commodities including human life and health. There are markets for murder and weapons of mass destruction, as well as for life saving drugs and the construction of healthy human habitats.

Capitalist logic establishes the value of commodities in markets where sellers and buyers establish prices (the money measure of the value of commodities).

Buy low and sell high is the fundamental principle of profit making in capitalist markets.

Money itself is a commodity. Great profits are made everyday by traders who use new technologies to track in real time small changes in the values of currencies in markets all over the world.

According to capitalist logic, commodities (including money) that cannot find buyers have no value. That same logic defines exchanges of commodities as good if profits result, and bad when losses result. Here, in the capitalist market, the terms good and bad have no moral content.

Regulation or suppression of markets in the name of fairness, human rights, human health, and environmental protection cannot spring from capitalist logic. Political society regulates capitalism by imposing a moral logic on the production and exchange of commodities that exploit, endanger, or degrade human beings and the natural environment.

III.

The legitimacy of the private ownership of property and of profit maximization are other essential elements of capitalist logic.

Capitalist logic defines human beings, not as social beings, but rather as individuals motivated exclusively by self interest. Capitalist rationality is premised on self-interest, not social obligations, moral commitments, or altruism.
In the capitalist way of thinking each of us own ourselves as property. In other words, each of us is essentially an individual alienated from all others.

Capitalist logic can deeply penetrate everyday social relationships. For example, the frequently asked question “Am I profiting from this relationship?” turns love and affection into an investment and cost/benefit calculation that relies on capitalist logic for its answer.

When constructed using capitalist logic, a people’s freedom/liberty depends on obtaining and preserving full ownership of themselves.

Historically, in many societies where some people once were (or still are) owned as property by other persons, the local definition of freedom is derived from recognizing what it means not to be a slave.

According to capitalist logic, in order to live and have self-respect, many people (including most adults, children, and the elderly) should sell parts of their lives (by the hour, the day, the week, the month, etc.) in labor markets. These labor market transactions mean the sellers of their labor power are less free than those who do not have to sell parts of their lifetime in labor markets.

Since the rich possess more of this kind of liberty than most people, they evoke a variety of responses among the non-rich in capitalist societies. These responses include anger and resentment, envy, adulation, and even attempts at emulation (via unwise borrowing or theft).

Behaviors such as the conspicuous consumption of things that have a high price (market value) but no real use value reflect the internalization of capitalist logic by many people in modern capitalist societies who themselves are not capitalists.

(Thorstein Veblen, The Theory of the Leisure Class, 1899)

Conspicuous consumption is a primary characteristic of economic globalization, and a major reason for the disconnect between global economic growth and other global measures of human well-being.
IV.

Capitalist commodities include time itself. As a leading capitalist of his day, Ben Franklin, wrote in 1748, “Time is money.” The money value of time can now be measured in nanoseconds.

Thinking like a capitalist means recognizing that time can either be well spent or wasted. A relatively recent application of capitalist logic is expressed in the extensive and intensive development of domestic leisure time as a commodity sold by the commercial entertainment industries including movies, radio, television, the internet.

The widespread use by of the term human capital reflects the deep penetration of capitalist logic in America and other Western societies. The logic of human capital development is the logic of developing a commodity for sale in a market.

According to capitalist logic, free time that is not spent in market activities, or preparing commodities (including human capital) for sale in a market is wasted time.

Human capital development has undermined the original mission of liberal education, the full development of human talents and moral character; and substituted for it as the main purpose of education the preparation of students for sale of themselves in particular labor markets.

Overemphasis on human capital development may leave educated people of the 21st century intellectually and morally impoverished.

V.

Business history is primarily the history of changes in capitalism itself that stem from the imaginative use of capitalist logic.

The imaginative invention and sale of various new kinds of financial commodities—in the past, securities like debt instruments (bonds) and claims on ownership (stocks); and most recently derivatives, collateralized mortgage debt, and credit swap defaults—create financial instability.
Great financial crises occur when understanding of the implications recently invented financial commodities lags far behind the rapid growth of markets for these commodities. This is what happened in the 1890s, 1930s, and since 2007.

Crises in capitalist markets and the insecurity, unemployment, and poverty they create always promote resistance to the application of capitalist logic in society and the economy.

Since the nineteenth century, financial crises have always promoted the growth a political Left committed to socialist and progressive logics that demands fairness, especially for those with the fewest resources.

Financial crises have also always promoted the growth of a political Right committed to the logic of fundamentalist religions and/or ethnic communalism. These groups usually insist on restoration of “traditional” values as way out of the crisis.

Understanding the amoral logic of today’s global “free market” capitalist institutions, and moral logics of their current opponents in the Occupy movements and among social and religious conservatives helps to clarify what is really at stake in the contemporary political debates around the world.

VI.

The imaginative application of capitalist logic also explains the evolution of the firm from the individual and family-owned businesses and partnerships of the fifteenth century to the transnational corporations of the twentieth century.

Controlling markets for commodities to push up prices or keep them from falling has been a characteristic of capitalism itself since its creation in early modern Europe.

The history of capitalist business reveals the nearly continuous development of _de facto_ and _de jure_ practices that protect individual capitalists, partnerships, and companies from the unpredictability and volatility of markets. Monopolies, oligopolies, cartels, licenses, copyrights, and patents
are some examples of this ever present characteristic of the actual practice of capitalism.

Since their invention in the 19th century modern corporations have used their market power and influence in governments to shape and control the markets in which they operate.

Large transnational corporations and banks are among the most powerful non-state actors of the 21st century. Establishment of markets that actually operate according to the principles of “free market” economic logic is not in the best interest of these transnational corporations.

Therefore the establishment by governments and intergovernmental organizations of market economies that are even “freer” than those of the late 20th century in 21st is both a practical political impossibility, as well as an amoral utopian project.

The political-economic crises that have emerged in most of the world will not be solved by the strict application of capitalist logic. Reforms sensitive to the religious, paternalistic, and socialist logics of particular peoples in particular places must be developed to blunt the amoral utopian project of the “free marketers.” There is no “one size fits all” solution to our global problems.