

14th October 2016

SOSC 1340

Introduction to Business and Society

Fall term

Lecture 6

Class, Society and Capitalism

“Give me that which I want, and you shall have this which you want” (Smith, p. 19)

“The specific economic form, in which unpaid surplus-labour is pumped out of direct producers, determines the relationship of rulers and ruled...it is always the direct relationship of the owners of the conditions of production to the direct producers...which reveals the innermost secret, the hidden basis of the entire social structure”
(Marx, *Capital* Vol. III)

Is capitalism a system of exchange, or a system of production?

Karl Polanyi (1886-1964)

- What was *The Great Transformation*?
- What concerns us here is what happens before the 20th C
 - What is an ‘economic system’? It is a **system** that ensures order in the production and distribution of goods so that the **society** in question can solve the ‘economic problem’
 - In these two chapters he examines 4 different principles of economic organization: reciprocity, redistribution, householding and ‘barter’
- Unlike the other 3 principles, the principle of barter requires an exclusively economic institution to operate as a system: the MARKET

Combination of 3 non-market principles: Reciprocity, redistribution, householding

No exist= no economy

What we associate with economies.

The Argument

- What does Polanyi mean when he says that “no society could exist for any length of time unless it had an economy of some sort”?
- What is peculiar about non-market economic systems is the “absence of the motive of gain.. And especially, the absence of any separate and distinct institution based on economic motives” (p. 47)
- Pre-19th C: Different societies had distinct economic systems based on principles of **reciprocity, redistribution and householding.**

Non-economic motives

- **Economic motive involves individual interest: Utility and profit** as individual economic motives: what are non-economic motives?
- The “outstanding discovery of recent historical and anthropological research is that man’s economy, as a rule, is submerged in his social relationships. **He does not act so as to safeguard his individual interest** in the possession of material good; **he acts so as to safeguard his social standing, his social claims, his social assets**” (p. 46)

Economic motives: includes individual interest, utility, profit

Non-economic motives: made sure economic problem was solved. Reciprocity [who] pays the bills, help someone move p.g.48.

Redistribution: paying taxes (the state)

Non-Market Principles of Economic Organization

- **Reciprocity:** “The male, who provides for his sister and her family by delivering the finest specimens of his crop, will mainly earn credit due to his good behaviour, but will reap little immediate benefit in exchange” (p. 48).
- **Redistribution:** “A substantial part of all the produce of the island is delivered by the village headmen to the chief who keeps it in storage” (p. 48) who will distribute it during feasts, dances and in long-distance trade with other communities
- **Householding** “consists in production for one’s own use” (p. 53). Natural ways (Aristotle) of acquiring the goods needed to satisfy economic needs

Aristotle: to solve the economic problem

The Self-Regulating Market

- It implies an **economic system** where ‘order in the production and distribution of goods’ is ensured by the *price system*, by the ‘laws of the market’ (supply/demand)
- **It implies the existence of a society whose members behave according to the motives it requires to function: a market society!**
- The **principle of barter** involves a radical separation or ‘disembedding’ of the economy from society: “Instead of economy being embedded in social relations, social relations are embedded in the economic system” (p. 60)

Adam Smith (1723-1790)

- Scottish political economist famous for his *Wealth of Nations* (1776) and considered a champion of capitalism
- Critiqued then dominant Mercantilist economic policy and practice
- Claimed that public ends/the public good would best be served by individuals pursuing their own self-interest
- Less popular, but just as important is his *Theory of Moral Sentiments* (1759)

Smith’s Theory of Capitalism

- Who was Smith’s intended audience for the *Wealth of Nations* (1776)?
- Critique of ‘mercantilist economic doctrine’

- Wealth is not the amount of money held in the national treasury but depends on the productivity of labour (labour theory of value) ↑ by D of L
- D of L presupposes the existence of markets
 - What is the division of labour? Surplus production
 - Market decides where resources go (price system)
 - 'Invisible hand' will ensure self-interest → public good
 - Suggests an understanding of capitalism as 'natural' and that it has always existed (in embryonic form)

Market society: rational economic men and women gain.

Smith on Human Nature

- “[The division of labour] is the necessary, though very slow and gradual consequence of a certain propensity in human nature...the propensity to truck, barter and exchange one thing for another” (p. 8)
- The ‘opulence’ of a “civilized country” is only possible due to the “assistance and cooperation of many thousands” of workers (p. 8)
- How do we get self-interested individuals to cooperate? “It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard for their own self-interest” (p. 8)

Many people to buy verses less people to buy.

The Division of Labour

- Pin Factory illustration (20 pins vs. 48,000!)
- The more extensive the division of labour, the more productive labour is
- Extension of division of labour driven by ‘large wants’ (limited by ‘small wants’)– this presupposes the existence of markets in which surplus is exchanged (‘spinners and weavers’)
- Specialization the mark of “improved society”: “The labour...which is necessary to produce any one complete manufacture is almost always divided among a great number of hands” (p. 5)

Technological Innovation

- How does specialization improve productivity?
 - Improves dexterity of worker, efficiency of motion, introduction of machinery
- How do innovations arise?
 - From the workers themselves (boy on a fire-engine)
 - From the makers of machines (a particular trade)
 - From *philosophers* (creative thinkers!)
- Resulting ‘opulence’ “extends itself to the lowest ranks of the people” (p. 7).

Social Consequences of D of L

- Does Smith confuse the ‘social division of labour’ (farmers, tailors, carpenters) with the ‘technical division of labour’? Class division between ‘industrialist’ and ‘workers’ emerges later (ch. 6).

- “by reducing every man’s business to some one simple operation, and by making this operation the sole employment of his life...” (p. 13).
 - Cogs in a machine? Compare Marx on ‘alienation’, the de-skilling of labour and increased competition
 - From nurturing many talents to specializing in the one that will fetch the highest price in the market
 - Extreme dependence on the labour of others, but in a highly depersonalized, anti-social way

Karl Marx (1818 – 1883)

- Philosopher, radical democrat and political economist
- Intellectual influences: German philosophy, French Political Radicalism and English Political Economy
- Spent most of life getting exiled, couldn’t hold down a steady good paying job
- Early collaboration with Frederick Engels (1820-95), whose *Condition of the Working Class in England* (1844) profoundly influenced Marx
- With Engels, wrote *The Communist Manifesto* (1848) during a period of great social and political unrest

Marx’s Theory of Capitalism

- In Marx’s view, Smith correctly understood the value-creating role of labour and how the D of L increases the productivity of the **forces of production (FP)** of society
- BUT: Smith’s view of the D of L *abstracts* from the class structure of society– the **relations of production (RP)**
- Marx is not only interested in HOW **commodities** are produced, but also the political, legal and ideological institutional arrangements needed to maintain this economic structure: the ways in which FP + RP combine
- ‘Voluntary exchange’ presupposes property rights of a specific kind, a state that will enforce them and ‘ruling ideas’ that legitimate arrangements as “just”

Marx’s Theory of Capitalism

- Capitalism a historically specific form of economic organization based on ‘the private and exclusionary ownership of the means of production’ as **CAPITAL**
- **Capital** is both a **thing** (money, commodities, the ‘**means of labour**’) **AND** a **social relation of production** between labour and non-labourer– working class and capitalist class
- Presents an **OPPOSING VIEW** to Smith on the consequences of the D of L: “We can hardly believe that the fatter capital becomes the more will its slave be pampered” (p. 18).
- Who is his audience? Not those in control, but the ‘wage-slaves’: proletariat or working class

Marx’s Theory of Capitalism

- Rejects the view that capitalism is natural and that capitalist private property is legitimate
- Key historical condition for the existence of capitalism is the availability of **LABOUR POWER** as a **COMMODITY**
- He refers to “work” as a commodity and to the exchange of ‘labour for wages’, in later works, he replaces this with the concept of **labour power**
- Turning labour power into a commodity requires the separation of people from direct access to the **MEANS OF PRODUCTION**
- An (oversimplified) view of the transition from feudalism to capitalism

Labour and Labour Power

- What does the labourer sell to the capitalist?
- NOT labour but LABOUR POWER: actual labouring activity vs. potential ability to do work
- The labourer “sells at auction eight, ten, twelve, fifteen hours of his life, day after day, to the highest bidder— to the owner of the raw material, the instruments of work and the means of life” (p. 3).
- In this exchange, the worker gets wages to buy the ‘means of subsistence’ (necessary labour), capitalist gets ‘the productive, creative energy of the worker’ replacing value of wages and creating new value (surplus value) (p. 11).

Marx’s Concept of Exploitation

- What does Marx mean when he says that “capital presupposes wage-labour and wage-labour presupposes capital” (p. 12)?
 - “The labourer perishes if capital does not employ him. Capital perishes if it does not **exploit** labour” (p. 12).
- How does this exchange result in the growth and accumulation of capital? What exactly is being accumulated?
- An Apple Orchard illustration: subsistence in a ‘state of nature’ vs. acquiring the means of subsistence under capitalism. Where does ‘profit’ come from? Necessary vs. Surplus labour

The D of L and Immiseration

- Marx also discusses the way in which capitalists compete to gain greater profits— by developing the division of labour, introducing machinery to improve the ‘forces of production’ (productivity of labour)
- What this means for workers: “Further increase of bourgeois domination and for the wider extension of the power of capital and thus contentedly to forge for themselves the golden chains by which the bourgeois drags them in its train” (p. 19)

Immiseration: Dimensions

- Material Impoverishment— competition between workers decreases wages (pits members of the working class against each other)

- Regular, periodic economic crises replenish the 'reserve army of labour' that will compete for jobs, reducing the level of wages
- Social Impoverishment: de-humanization and alienation from others (damn computers!)
 - Deskilling and loss of control over work– the development of the 'means of production' extinguishes the skill of workers (the degradation of work)