
UNIT 10 CAPITALISM*

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10.0 OBJECTIVES

After studying this unit you should be able to:

- describe the basic notions of capitalism;
- explain various elements of capitalism;
- discuss how labour is produced and² the division of labour;
- analyse the idea of economic inequality; and
- to distinguish between various forms of capitalism.

10.1 INTRODUCTION

You learnt in Unit 9: Peasant Economy about the peasant economy and culture. This unit conceptualised the term capitalism and offers an insight into the capitalist

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form of economy. It gives us a general understanding of the notions of capitalism as it existed globally as well as in the Indian context. The unit discusses various dimensions of capitalism. One of the fundamental characteristics of capitalism is the division of labour. The unit provides an understanding of the division of labour and the production of labour. It discusses various factors involved in the division of labour. Capitalism as basis of inequalities among people in a society can exist in its various forms depending upon who owns the production and who controls it. The unit discusses three important types of capitalism.

10.2 BASIC NOTIONS OF CAPITALISM

Capitalism is a form of economic system which involves three elements, that is, (i) labour (working for wages), (ii) private ownership of means (such as farmland, machines, offices, and so on) (iii) and producing goods for exchange and interest. There is a class of people who are the owners of the means of production and they are called the capitalist class or bourgeoisie. On the other hand, there are those who sell their labour for wages and they are the working class called proletariats. This classification of bourgeoisie and proletariat as classes is given by Karl Marx. One of the fundamental features of capitalism lies in making profit. This is to say that capitalism in its simplest way means investing money in order to make more money. This process of money making is central to capitalism (Schumpeter & Sweedberg, 1991[1918]). For example, when the owners hire more labour, the motive is to have more profit. Here the profit comes in the form of money. Thus, the invested money generated more money and so we can say that money functions as a capital. This increase in money results in the expansion of economy and this is called as capital accumulation (Marx, 1974). However, it is not to be understood that more money is produced through exchanging it, the profit in the form of money depends upon the production. The more the production, more will be the profit (mostly in the form of money). So the exchange that occurs involves exchanging goods against money. And the ability to work and the capability to produce are crucial to the accumulation of capital. This is to say that there is no magical play to transform money into more money but it requires ample amount of labour.

There is always resentment between labour and money. Capitalists hire labourers at lower rates, they increase their working hours, force them to work at a faster pace. The labourers try to defy these motives of capitalists covertly or overtly. The former involves taking breaks in the middle of the work, spending some time in chatting with fellow workers, leaving early and so on. All this happens in the absence of capitalists. The latter involves holding strikes collectively, slowing the working pace as a mark of protest, and so on. This results in conflict between the working and non-working classes and is called as class-struggle. Class struggle entails the oppression of the labour class by the owners of the production. In this struggle, labour class protests against the oppression of the owners (Smelser & Swedberg, 1994). The notions of class struggle have been borrowed from Marx's theory of class society. In Marxian terminology, this struggle is between proletariats and bourgeoisie. In this categorization, proletariats are the powerful class while as bourgeoisie are the non-powerful labour class.

10.3 DIMENSIONS OF CAPITALISM

The whole idea of capitalism has its roots on the following dimensions:

10.3.1 Private property ownership

Property does not only mean owning the tangible things but property also involves a person's right to life and right to liberty. At the same time, private property ownership refers to the ownership rights of labour class over the goods that they produce through their labour. Private property is not to be confused with the individual property. It can be owned by either an individual or by a group. The idea of private property is not something distinctive in capitalism but an essential component for its smooth play. Owning private property elevates the industrial societies further, ensures reciprocity and advocates trust and honesty. People derive more value from the goods that they own. These goods are meant for the best interests of both the private owners as well as for the larger society to which they belong.

10.3.2 Self interest

One of the finest encouragements of capitalism is self interest. Self interest means people working for their own interests, aims, purposes and ambitions. This does not mean that capitalism encourages greediness. Interest and greed are two different notions. Greed involves caring for self interests and ignoring the interests of other people. It does not involve any regard for the legal provisions. On the other hand, self interest is an inherent attribute of humans and there is no survival without it. Capitalism harnessed self interest but this does not mean that people pursue their own benefits individually but they also pursue benefits for their families and others they care about. Not only this, people also team up with others and share interest among all the collaborators. These collaborators are mainly those belonging to the same group.

Activity 1

Visit a library in your neighbourhood and read Ayn Rand's book "The Fountainhead". After reading the book write a short essay on the author's main focus and how it is reflective of a capitalist society.

Please share your essay with the Academic counsellor and your peers at your Study Center.

10.3.3 Competition

Competition is yet another significant element of capitalism. The advocates of capitalism have little knowledge about the working of competition. Competition is a continuing process to improve, adjust and innovate, which are considered by many as the greatest benefits of competition. Competition is important for the accumulation of capital. In a free market, competition implies offering the best services to customers than the opponents. The opponents as such are not the enemies, but the competition has its base on production and on the values available to consumers. The focus of the competitors is more on price, innovations, methods, originality, quality, quantity and so on. The idea is to compete in economic terms

than on other fronts. The underlying idea of competition is to push the producers to raise their production standards through maintaining the quality of essentials and curbing the prices on goods.

10.3.4 Price mechanism

Price mechanism is a system through which prices of goods can be ascertained by demand and supply. Thus price mechanism completely depends upon the producer and the consumer of goods. In other words, it depends upon the buyer of goods and the one who sells them. Price mechanism works in a free market in which the changing prices shape the quality and quantity of the production. But sometimes, it is not the buyer and seller of goods but the government which controls the market to make commodities available to poor at reasonable prices. In a free market, if there is scarcity of goods, the demand for goods increase while as the supply of goods goes down. In such situations, the price for the goods goes up. The higher price of goods reduces the demand which further results in the preservation of resources. The changing prices give opposing signals to both the producers of the goods and the consumers. It informs consumers to reduce the demands and move out of the market when the prices go high. It also informs producers to enter a market where the competition among various producers takes place. On the other hand, the reduction in the price encourages consumers' entrance into the market and discourages the producers to withdraw from the market.

10.4 DIVISION OF LABOUR AND THE LABOUR PRODUCTION

Division of labour refers to the distribution of labour work among the workers based on their skills. People rely on the goods supplied to them for their survival and for their well being. The production of these goods depends on the labour force, which is divided on the basis of skills that labourers possess. The division of labour results in an increase in the production and enhances the efficiency of the productivity through the skills and through the knowledge that the labourers have gained. The process of production further enhances the knowledge of labourers, which creates specialised and sub-specialised forms of labour. Division of labour serves various functions as discussed below:

10.4.1 Enhances the knowledge

The process of production involves a wide variety of knowledge depending upon the skills of workers. For example, the producers of various goods, such as goods produced by industrial workers and non-industrial workers, possess varieties of knowledge of distinct specializations. Workers join hands together in industries to produce goods. A common example that clearly illustrates the way division of labour enhances the knowledge is the production of vegetables. In vegetable cultivation, farmers seek help of many persons. They seek help of people who can plough their land, tilt it, require water pump for irrigation, fertilizers for high produce, manpower for harvesting, and so on. There are various people involved in these specialised roles. Thus the production process involves more knowledge than possessed by a person alone or by a family. In modern societies, the knowledge

can come from other means also such as the more efficient mechanical means of carrying out multiple activities involved in the crop production process such as use of tractors, use of chemical fertilizers, and so on.

10.4.2 Skill development

Division of labour encompasses skill development through the aid of skilled and professional workers or employees. The lack of division of labour in a given economic society may force people to work and produce for themselves with the skilled ones more fortunate to produce quality goods than the unskilled. In contrast, the division of labour ensures that the skilled and more knowledgeable people invest their time in guiding and directing the unskilled for a better production of goods. This increases the rate of production for every member involved in labour work. Thus division of labour not only increases the knowledge of the unskilled but at the same time it also enables one to utilize that knowledge in meeting the standards set by the economic society through the skilled ones. This also enables people with minimal knowledge to engage in the production process through the knowledge of highly skilled persons. The same process follows for the later generations and this increases the level of production gradually.

10.4.3 Efficiency in production through learning

Division of labour increases the efficiency of the workers through the processes of learning and acquiring knowledge from the knowledgeable. Those who learn skills about some specific work utilize them in the production process more frequently depending upon the amount of time devoted in that kind of work. With the passage of time, while they continue using that knowledge in their work, they transform into professionally skilled and knowledgeable persons. This increases the rate of production because they do not have to wait for the knowledgeable people to direct and guide them in the production process. There is also the transformation of knowledge and skills into specializations and utilized by those who best suit these specializations. The assimilation of knowledge in the division of labour increases the efficiency in the production process.

10.4.4 Using machines in the production process

Division of labour paves way for the use of machines in the processes of production. As mentioned earlier, division of labour enhances knowledge among the workers which makes the use of machines in the production possible. This means that division of labour is essential for the use of machines which results in the extensive production of goods and the rise in economy (Misra, 1988). It would otherwise be difficult to raise economy through solely employing the manpower. The invention of machines itself requires the aid and knowledge of the specialized people. This is of advantage to the capitalists who would make more capital through using machines than human labour where they have to pay wages to them. Use of machines in the production process reduces the employment opportunities for the labourers and employs only the skilled and specialized ones who can operate machines on a daily basis. The specialised division of labour makes it possible that the use of machines increases the productivity.

Check Your Progress 1

1) Define a capitalist?

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2) What are the three basic elements of capitalism?

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.....

3) What is price mechanism?

.....
.....

4) Division of labour means the division of owners of production in a capitalist society. True or False.

.....

5) Division of labour serves certain important functions. Name any two functions?

1) 2)

10.5 ECONOMIC INEQUALITY UNDER CAPITALISM

Inequalities among human beings have existed since long when humans started producing surplus economies. Inequality weakens human solidarity and creates a divide between the strong and the weak such as on the basis of gender. In capitalism, there ought to be inequalities. Inequalities have its roots in the division between the owners of the means of production and the labourers who use their labour in the production process. This means that under capitalism, inequalities exist at two levels. One is the inequality of wealth and the other is inequality of income. Some scholars call these types of inequalities as **stock** inequality and **flow** inequality respectively. These inequalities exist among different kinds of actors who are involved in the production system such as the workers and the owners or among the workers itself or even among various owners.

Labourers or the working class is the largest group in capitalist society. Their labour power is the basis of all the productive property but they do not own productive property. Both the labourers and the production are owned by capitalists. In order to produce goods, both the labour class and the capitalists unite. Their unity rests on collective idea of acquiring economy. While labourers sell their labour for wages to make money, the capitalists own all the produced property which becomes their source of economy. The income difference among the two classes is determined by who owns the property (Patnaik, 2012). The property owners and the owners of the labour power are likely to have higher

income than those who collect wages in exchange to their labour power. These two forms of transactions are the basis of inequalities among the two classes.

Due to competition among various capitalists as well as among various organizations, economic inequalities are bound to exist. Economic inequalities does not only exist among the capitalists and workers or among various capitalists but also among the labourers and labour market involving men and women, skilled and unskilled, permanent and temporary, local and migrants and so on. These are the intrinsic inequalities that exist in capitalism. The inequalities in capitalism are due to the reason that capitalism creates a conflict between the capitalists and working class. Marx argued that inequalities are the construction of social class formation in capitalist arrangement of economy. This denotes that capitalism necessarily starts with inequality and ends also with inequality. Inequality is in fact called by many as the structural attribute of capitalism.

Activity 2

Talk to people in your neighbourhood and find out from at least five adult individuals about their occupation. Write a short note on the working people and their contribution to the economy.

Share your note with others at your Study Center.

10.6 VARIOUS FORMS OF CAPITALISM

Generally, there are two types of capitalism, that is, private or corporate capitalism and state capitalism. This categorization is based on the type of ownership and control over capital and distribution. Private capitalism is a form of capitalism where the means and distribution of production are controlled and owned by people who spend money in order to accumulate economy. On the other hand, state capitalism entails the regulation of market economy of the private capitalists in which state does not own or control the means of production. There is yet another type of capitalism in which there is the shared ownership and control of the private and state sectors over the means of production and distribution. These three types of capitalism are discussed below:

10.6.1 Private capitalism

Private capitalism is a kind of capitalism in which the hierarchical structures of capitalism as well as bureaucratic corporations control the means of production and the overall profit generated out of the production. In sociology and economics, this type of capitalism denotes the capitalist marketplace. Corporations dominate the marketplace and they do not function towards the interests of people and so many scholars, especially in sociology, argue that private capitalism functions against the standards of democracy. Private capitalism rejects the idea of equal power relations among the members of a given society. It works towards the interests of private corporations within a country.

10.6.2 State capitalism

State capitalism is one of the important types of capitalism and a misleading notion since it delivers the idea that the state controls the capital. However, the

case is a contrasting one. State capitalism means that the state takes over the important aspects of private capitalism. Under State capitalism, the market does not control the means of production and distribution. There is an interference of government under the state capitalism on the issues of trade freedom and freedom of labour. Thus the regulation and expansion of production lies with the state through both old and new codes of economic market. The utilitarian concept of state capitalism considers state as a powerful tool of ruling class. Those falling outside of this class are subject to suppression and domination.

10.6.3 Mixed capitalism

Mixed capitalism is a blend of both private capitalism and state capitalism. This form of capitalism involves an economic system in which both state and private sectors control the capital. Mixed capitalism is characterised by two kinds of economies, that is, market economy and planned economy. Market economy depends on the demand and supply of forces in which resource distribution is determined through price mechanism. In this type of economy, individuals are free in their choices. They take their own decisions in terms of where and who to work for, what is to be produced and so on. There is no state intervention in this type of economy. On the other hand, planned economy entails the control over production and resources by one person or a group. Various sectors work together to produce goods and the distribution is done by the government. Planned economy is also called as command economy because the controlling authority sets specific guidelines which are binding upon all. The reason it is called planned economy is the fact that whatever is needed by people is produced and the needs of all are fulfilled.

Check Your Progress 2

- 1) What do you understand by economic inequality?
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.....
- 2) Inequalities between capitalists and labourers exist at two levels. Name them.
1) 2)
- 3) According to Marx, inequalities are the construction of
in capitalist arrangement of economy.
- 4) State owns and controls the means of production in private capitalism. True or False
.....
- 5) In state capitalism, government owns the means of production. True or False
.....

10.7 LET US SUM UP

In this unit, we have discussed the notions of capitalism and capitalist economy. In Marxian terminology, capitalism refers to a system in which there is an

economic relationship between two important class involved in the process of production. There are various dimensions of capitalism which are discussed in this unit. The economic system demands the division of labour for the quality and quantity of the output. What is the basis of this division and how labour is produced in capitalism are elucidated in this unit. The unit also offers an insight into the prevailing inequalities among the two classes in terms of wealth and income. The unit further discusses various types of capitalism thus distinguishing between private, state and mixed capitalism.

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10.9 SPECIMEN ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress 1

- 1) A capitalist is the one who owns the means of production.
- 2) 1) Labour for wages, 2) Private ownership of means of production,
- 3) Producing goods for exchange and interest.
- 3) Price mechanism is a system through which prices of goods are determined by their demand and supply.

- 4) False
- 5) Skill development and enhancement of knowledge

Check Your Progress 2

- 1) Economic inequality means difference in the income of two classes which is determined by the property ownership.
- 2) 1) Inequality of wealth 2) Inequality of income
- 3) Social class formation
- 4) False
- 5) False



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