

Adam Smith, whom we will be discussing later, argued that the related principles of *division of labor* and *resource specialization* serve to increase productivity. In order to maintain high enough levels of productivity to feed populations, some form of organization needs to be imposed where roles are assigned to individuals within the community. The more complicated the division of labor, the more hierarchical the organizational structure.

### Starting With The Greeks and Romans

Our history begins with ancient Greece. Very definite roles were assigned to labor, division of labor did take place, and as a result, a small leisure class could be supported by slaves and other productive members of society. The productive members specialize, increasing productivity, and providing a surplus of goods and services to be enjoyed by the leisure class.

None other than Plato argued that it was natural to have a class of individuals assigned no physical work. Freed from common toil, this class would be free to think great thoughts and to engage themselves in the higher forms of endeavor: art, literature, and philosophy. Remember, work is a four letter word.

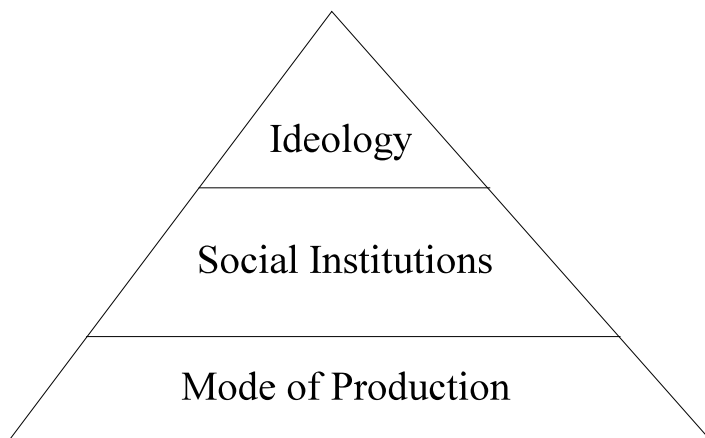
Further, there needed to be a government sector whose purpose was to maintain and protect society's structure. As soon as these argument are made, social classes emerge. These classes are hierarchical, as mentioned in the Marx lecture, with the leisure class as the highest, supported by lower classes all the way down to slaves.

Such a system could not exist without institutions and ideologies to support it. The institutions are unique to the system in place. For example, in our early Greek example, the institution of slavery was present. The status of the slave class was enforced by government, education, police, and military institutions. All institutions, including the education system and the structure and

expectations of family, also supported a person's status in society.

On top of these institutions are the ideals of society. These ideals justify the current system. In other words, religion, morality, codes of conduct, all support the system.

Karl Marx thought of these in terms of a triangle (see Figure 1). At the bottom of the triangle is what he termed as the *Mode of Production*. This is the system currently in place and is made up of the



**Figure 1:** Marx's Triangle

*Forces of Production and the Relations of Production.* Forces of Production involve the techniques of production, i.e., the tools and the technology required for production to take place. Relations of Production involve the manner in which production is organized. Its primary component is found in the form of a hierarchy of social classes. The Mode of Production is the driving force of a society. While changes in institutions and ideologies can affect the Mode of Production, they are secondary in their influences.

In ancient Greece, the majority of residents (up to 80%) were slaves. Cities were primarily engaged in governmental operations. The bulk of the economy was agricultural. The owners of slaves were, by and large, plantation owners, government officials, philosophers/teachers, all being members of the leisure class. They tended to live in luxury with little in the way of work obligations assigned to their families or to society.

Slavery was seen to be “natural.” This view of nature was held by the slaves’ owners but also accepted by most of the slaves. The slaves were ultimately controlled by the various institutions and ideals mentioned earlier. The leisure class were also subject to the “naturalness” of their lot in life. In this regard, the leisure class found physical work to be beneath their natural station. Work itself was viewed as the lot of the lower classes.

Rome followed in a much similar vein. The biggest difference between the two societies can be found the fact that the Romans had much stronger institutions, especially those related to law. These institutions and the various Roman religions served to govern relationships between individuals and between the leisure class and their slaves. These relations were codified in an elaborate system of laws that made the implied relationships of Greece exact and enforceable.

## **On To Feudalism**

The narrative to follow will center on European feudalism. Much was happening in the rest of the world during this period that was very different from what was happening in Europe. We concentrate on Europe because the European experience influenced the writings of both Karl Marx and the Neoclassical economists. This course is about comparing Marxist with Neoclassical thought. Therefore, we will focus on the bases for these lines of thinking. These bases come out of the historical experience of Mediaeval Europe.

With the fall of the Roman Empire, a social system emerged that was not based on slavery. It was very hierarchical in form, with *free* (not slave) peasants at the bottom and kings/queens and the pope at the top. In between is a long list of classes, such as the lord of the manor, earls, dukes, cardinals, bishops, and so on. The system was based on a set of relationships between members of the society. These relationships were based on series of duties and obligations. Duty to the next rung in the social ladder, duty to one’s parents, and most importantly, duty to God and His church. The duties and responsibilities were, for the most part, associated with one’s social class. Since an individual was born into her/his class, it could be said that the duties of every individual were conferred upon that individual at birth. Moving between classes was

extremely difficult and rare.

Two primary ideologies governing society were promoted within the Christian church and the family. Moral obligations were outlined for the citizens to follow. In the family, obligations were from those low in the family structure to those higher up. Children had definite obligations to parents. However, the word “family” is broadly defined. The peasants were in the family of the manner. They had obligations to the lord of the manner. The lord of the manner was a member of the family within the fief. They owed obligations to this broader family. On up the line these obligations went until they ended with the royal family, headed by the queen/king.

The obligations were not to be in only one direction, however. While it is true that the children of any family owed allegiance and obligations to their parents, there were obligations on the part of parents as well. Parents take care of their children. Parents protect their children and they accept responsibility for their children’s material and spiritual welfare. By analogy, in feudalist societies, the “parents” were the rich and the church, the “children” were the poor. The children accept their status and resulting obligations and in return, the parents offer protection and a commitment to society’s level of material and spiritual welfare.

Similar obligations by all members of society were owed to God and the Christian church. The church took on the role of parent in this regard and society took on the obligations of offspring. The Bible even describes people as God’s children. The institution of the church oversaw the conduct of both the rich and their children.

Here is how it worked. The church blessed the notion that a few could be rich while many could be poor. However, the rich had the parental duty of providing welfare for those in need of relief. When poverty imposed particular pains on the poor, it was the duty of the rich to offer alms and/or loans. Christ argued that all individuals should be concerned with the welfare of their brothers and sisters (note the inclusion of family structures in His teachings). He also argued that acquisition for the sake of acquisition, or for personal gain, was wrong. His advice to the rich was to sell their possessions and give to the poor.

The charging of interest on loans was prohibited by this morality, for how could one ask for interest when the purpose of the loan was to take care of society’s children. The charging of interest beyond the costs of administering the loan was called “usury,” and was morally prohibited, although like in many societies, the practice was somewhat different. In fact there were many regular occasions when all loans were declared to be forgiven, making loans a form of alms for the poor.

Church writings during feudalism talked of the evils of greed and of excessive wealth. But being rich, in and of itself, was not a sin. It is the desire to acquire wealth that was a sin that could be mitigated against by the giving of alms. Since the purpose of wealth was to help the poor, anyone who used their wealth in this manner could expect rewards in heaven.

The tenants of self-interested behavior and private property, keys to a free enterprise system, were not seen in a particularly favorable light by the feudalist church philosophy. Self-interest was condemned, as outlined above. Private property was accepted only in that it allowed for alms giving. Wealth existed only to serve God and the public. These relationships were actually seen as being ordained by God and natural to the human condition.

Even the class system was seen to be moral and the specialized tasks assigned to each class were seen to be natural. The rich needed to be rich to carry out their functions. The poor did not need to be rich to carry out their responsibilities. Everyone should accept their position in society and apply themselves, as hard and honestly as they could, to the tasks natural to their class.

One other and very important point. Commerce itself was looked down on because commerce was for the purpose of economic gain. Therefore, trade was to be limited to a very few goods and services that could not be effectively produced by everyone. What little trade did exist was conducted under very strict and moral rules. For example, the feudalists concluded that the price of a product should be “just.” A just price was one that just covered the costs of production. Any price above the just price would lead to profits. The search for profits and for personal economic gain were seen to be immoral and a grave sin.

Finally, any attempt to better oneself relative to the other classes was condemned. To try to move out of the peasant class through profitable enterprise was subject to strict moral sanction and the promise of an eternity spent in hell. These were strong sanctions indeed. To be condemned by the church was viewed with great fear by all classes and represented a very strong institutional social control mechanism. According to the strictures, *individuals and families could only retain enough wealth to maintain their customary and traditional station in life.*

Of course, just because society has a set of ideals doesn't mean all followed those ideals. Many rich applied their wealth to their own uses and were stingy in meeting their moral obligations to the poor. Many poor resisted meeting their obligations. Even in today's society we find deviant behavior. However, for a society to survive, its dominant ideology needs to be accepted by most, or a new society must emerge.

### **The Beginning Of The Transition**

The transition talked about here is the transition to capitalism. What is capitalism?

#### *Alternative Views of Capitalism*

If you look at capitalism from the Neoclassical point of view, you would define it as Milton Freedman defined it, “The freedom to choose.” You have already had this in your Principles of Economics course. Therefore, the following points will consist of reminders:

- Property rights associated with scarce resources are assigned to households, not to government or some other agency of the state.

- Households are free, subject to market conditions, to apply these resources to any endeavor of their choice and have a right to earn a return for such employment.
- Consumers are free, subject to market conditions, to purchase (or not to purchase) any good or service.
- The relationships between firms and resource owners and between firms and consumers are guided by markets. A market consists of potential buyers and potential sellers of a good or a service. A market is where price is determined and where property rights are exchanged at the determined price.
- Society gains from such a system when resource owners choose resource employments to meet household (consumer) needs to the greatest extent allowed by available resources. Households reflect needs by voting with their dollars. Those needs resulting in prices high enough to at least earn the resource owner a normal rate of return will be met. Owners are rewarded or punished as a result of employing their resources to meet consumer needs. Therefore, profits are an *earned* reward for assuming risk towards producing what society wants produced.

The emphasis is somewhat different if you look at capitalism from a Marxist point of view:

- Marxists agree that capitalism is characterized by the exchange process through markets. Marxists argue that capitalist exchanges are completely impersonal, a very important point for our continued discussions. Impersonal means that we don't transact with one another on a human level, but through the medium of money, the most impersonal of all commodities.
- Capitalism is characterized by distinct economic classes. The most important distinction is between the owners of capital who hire labor and labor themselves who are devoid of any meaningful capital ownership. In short, capitalism is characterized by a distinction between those who hire and those who are hired. Owners may want to engage in work activities. However, they are rich enough to abstain from meaningful production.
- There are two somewhat more minor classes interspersed between these two great classes. We need to identify the professional and small business class and the destitute class. The small business and professional class consists of individuals who are somewhat like the owners of capital. It is the scale of ownership and control that is different. These individuals do not earn enough money to avoid work. However, they generally identify themselves with the ownership class and generally support this classes' interests.
- The destitute engage in illegal activities, live off welfare, and pursue other activities that permit them to survive. Some actually work, but at very low pay and prestige occupations. This class is looked down upon by virtually all the other classes. The destitute are deemed to be less than respectable members of society. The role of the destitute class in capitalism is to encourage individuals who are not a part of the property class with strong incentives to obtain meaningful work in order to avoid being placed in this, the lowest of classes. Work and income are often sought even when working conditions are poor and wages are low.
- Markets are guided by profit and *not* by producing goods and services to meet societal needs. If it is more profitable to allocate scarce resources towards the production of

- beanie babies than producing housing for the homeless, beanie babies will be produced. In capitalism those in the labor class are the true and only source of value. From where do profits come? Profits stem from owners employing labor, paying them a wage, and selling the product for a price that is above the costs of labor. In other words, profits are *not earned* from producing for society's true needs but from owning resources and having the ability to hire those that do not own any resource but their own labor and then being able to charge a price in excess of the costs of labor.

### *Technological Change and the Emergence of Trade*

Now, on to the changes that lead us from feudalism to capitalism. Feudalism was an agrarian society. Most lived and worked on small plots of land, primarily producing food and materials for clothing. Trade was minimal. Except for the rich, consumption and production tended to exist at a subsistence level. If changes in society's structure were to emerge, they would have to emerge out of the dominant economic and social sector, i.e., agriculture.

Both Marxists and Mainstreamists agree that significant changes in agriculture technology had much to do with the fall of feudalism and the rise of capitalism. One such change was so simple, one wonders why it wasn't employed earlier. For many years, agriculture used a two-field crop rotation system where one field was planted and the other was put into fallow. This allowed the fallow field to recover from the previous planting.

Around the eleventh century, the system was changed to a three-field system. Under a three field system, grains were planted in one field in the fall, oats, beans, or peas were planted in a second field in the spring, and a third field was allowed to lie fallow. These various fields were rotated from year to year.

The results were striking. Significantly more land was put into production than the previous two-crop system (2/3 vs. 1/2 of the land). Productivity, measured as output per worker, increased significantly. The family farmer (peasant) could now grow a surplus of food over what was needed by the family for subsistence. He/she even grew more food than was customarily required as obligations to the other levels of social structure.

What is more, oat production increased significantly since it was the principal crop of the spring planting. This allowed the peasant to feed greater numbers of horses, cattle, and sheep. The increased numbers of horses provided a strong source of power for agriculture. New methods of plowing, discing, and planting accompanied the increased use of horse power, leading to even more significant increases in production. What is more, the various tasks of agriculture were sped up through the increased use of horses over the previous use of slower oxen. The increased use of the faster horse meant that larger plots of land could be cultivated, taking advantage of increased productivity as a result of economies of scale. Scale economies are necessary to the growth of cities. Economies of scale also lead to increased specialization. All of these factors allowed for, indeed required, expanded levels of market exchange through trade and commerce,

both being necessary ingredients of an emerging capitalist system. Finally, expanded cattle and sheep production led to an expanded consumption of these sources of protein in the diet.

The improvements in agriculture production led to other factors that eventually spelled the doom of the feudal system. Economies of scale and increased specialization led to the need for trade beyond the minimal level characteristic of feudalism. Surplus agriculture products stemming from technological improvements in producing food provided materials for trade. Increased agriculture productivity also permitted fewer peasants to feed larger populations. This ability to feed populations represented a necessary ingredient to the growth of cities, a topic to be discussed shortly.

Trade also expanded as a result of new contacts between Europe and other regions in the world. The many Christian Crusades, attempting to overturn the strength of the Muslim based Ottoman Empire, had the unanticipated result of encouraging trade. Many historians contend that the Crusades were only partially religiously motivated. The Crusades were often conducted or encouraged by France and Venice, both with commercial interests in the region. Both France and Venice were becoming stronger in world influence. Both wanted increased access to the East. France, in addition, needed an external enemy to help control unrest at home.

Increased trade led to technological improvements in the mechanisms required for trade. For example, the invention of the four wheel, horse driven wagon for transporting goods and commodities significantly reduced the costs of transportation which, in turn, facilitated expanded trade.

In Marxist terms, the changes in the techniques of production in agriculture and in transportation began to shake the foundations of feudalism. In Mainstream terms, technological changes permitted the elements of capitalism to begin to assert themselves.

### *The Growth of Cities*

Think about all these factors for a moment. Increased productivity in agriculture provided the means for feeding cities. Increased agriculture productivity, which remember is measured in terms of output per worker, meant that more food could be produced with less labor. In other words, technology in agriculture created a surplus workforce on the farm. Where was this surplus to go? To cities in search of employment. The feudal family, where every member was absolutely necessary for production to take place, began to break up when unneeded labor, sons and daughters, brothers and sisters, were encouraged to find employment elsewhere.

There are economies of scale in the city as well. Rome grew very large as a center for government (law), religion, and commercial activity. There were economies that emerged from storing grain in and distributing grain from large containers for use by the city dwellers as well as by rural residents. There were even economies in religion, where the various temples to the gods could be located in one place and made accessible to large portions of the population. The fact

that religious officials were located in one place reduced the cost of communication and permitted advances for the religious enterprise. Government also realized economies, allowing centralized control of a very diverse empire by permitting face to face communication between those making the laws and those enforcing these laws.

The same is true for the emerging cities of Europe, although feudal Europe was even more dispersed than was Rome. As European cities grew from an influx of labor from the manors, the largest cities became centers of commerce, government, and religion with all the economies mentioned in the Rome example. With population becoming more urbanized, the strength of central leaders, kings and queens, began to expand and stronger central governments began to emerge. Laws and rules of exchange began to be modified from the strict dictums of the church. A merchant class, located in the cities, emerged to conduct and facilitate trade.

Why are these events important? Remember, feudalism was overwhelmingly based on self-sufficient agriculture. Now we find a process which still depends on a productive agricultural sector, but that also includes more and more residents of cities. The growth of these cities began to transfer the system of control from the manor to the city. If one is to live in the city, she/he must be able to purchase agriculture products. The only way to do this is to produce items desired by agriculture to be offered through trade. Since barter is inefficient in conducting trade between multiple parties with multiple needs, exchange using the medium of money began to emerge. Money exchange requires monetary institutions and rules of commerce, which brings us full circle back to the notion that order and control would slowly move from rural to urban areas.

The point that production needed to take place in the city so urban populations could obtain the means for purchasing needed food needs elaboration. Most production under feudalism occurred within the peasant household. They produced mostly for their own use. They engaged in very limited trade to obtain other products they needed. The only way a city dweller could persuade peasants to purchase their production is if the city dweller could produce certain goods and services cheaper than could be produced by previously self-sufficient peasants.

How can they do this? Our old friend economies of scale presents itself once again. Industrial activity brings people together with tools to produce commodities. A readily available labor force located in one place reduces the labor costs associated with expanding or contracting production. The presence of large numbers of people in one place increases the chances that new technologies will be created resulting in reduced costs of production. Finally, remember that trade encouraged the design of new transportation technologies so that the costs of transporting raw materials and finished products did not overwhelm savings from centralized production. Economies of scale are absolutely necessary for the emergence of cities and the emergence of exchange.

It should be noted that, before all this occurred, what trade did take place combined the production of a commodity with its sale. In other words, people produced and sold their own production without a trade intermediary. The new system was becoming more complex, with

trade requiring finance, local sellers, and the emergence of markets. The seller, the producer, and the buyer became three separate entities with the producer and the buyer not knowing nor caring with whom they were dealing. Impersonal markets began to emerge.

### *Other Factors Leading to the Decline of the Manorial System*

Remember, from a Marxist perspective, changes in the Mode of Production such as the creation of commercial cities, urban production methods, increased trade and exchange, all created conflicts within the existing Mode of Production. These conflicts within the existing Mode of feudalism are what would eventually spell the doom of the feudal system.

It was not long before the need for expanded manufacturing and reliable sources of supplies of manufactured products led to innovations in this sector as well. The earliest of these new approaches is the so-called Putting-Out System.

The putting-out system of manufacturing began with individuals owning their own tools of production and contracting for a fee to essentially produce products in their own homes for a merchant who provided the raw materials of production. The merchant did not produce the manufactured products and, initially, did not provide the tools for production. The merchant's job was to secure needed inventory, find buyers, and sell at a profit. Eventually, the merchant also provided the tools of production and the raw materials. The fee paid to the household member doing the work began to look like wages paid to a laborer. In other words, the beginnings of a system based on wage labor emerged from this later version of the putting-out system. Eventually, the merchant also provided the tools of production, which meant that the workers were simply paid labor. The basis was laid for the coming factory system.

In the fifteenth century, England developed what was then considered to be a super modern textile industry. The industry needed water for production, so the industry was initially scattered around sources of running water. With the putting-out system and the emerging textile industry, thoughts of the advantages from a monopoly position became appealing. Soon organizations, called livery guilds, emerged to help bring about such monopoly power through protectionist measures.

Fees, licences, membership to trade organizations, and other barriers prevented entry into the market. These new industrialists also needed protection from foreign competition. In order to do so, they needed a stronger central government that they could influence and control.

### *What Happened to the Manors?*

Capitalism could not truly replace the feudal system unless the most basic organization of feudalism, the manor, disappeared. It eventually did because of the increased importance of cities and manufactured goods and services.

The lords of the manors soon found themselves wanting the luxuries from urban manufacturing. They had an agriculture surplus they could use to purchase these goods and services. But the old traditions put a limit on how much they could tax and expect in tribute from the serfs. The commutation system was invented primarily to secure more currency for the nobility.

The commutation system allowed the serfs to trade money earned from the sale of produce for their labor obligations to the nobility. In effect, the commutation system substituted money rents for direct labor and material obligations. The serfs were now farmers. The more they produced, the better their material lives. The lords were now given cash or goods in trade which could be used to purchase the products of the city. Tradition gradually gave way to contracts under this new system.

The lords eventually began to directly rent their land holdings to other peasants for cash. The lord became a landlord outside of the old traditions. The landed aristocracy emerged.

Interestingly, in the late fourteenth and early fifteenth centuries, there was a brief pause in the demise of the manor system. The Hundred Years' War between France and England (1337-1453) and the Black Death plague (1348-1349) combined to create general social disruption in both countries and led to severe labor shortages. Wages rose at the expense of the return to land. As land rents fell, the landlords attempted to end the commutation system and return to the Manor. Peasant revolts resulted, virtually all over Europe, from the late fourteenth to the early sixteenth century.

The point is, the clock could not be turned back. Capitalism was here to stay. The bloody conflicts as peasants and nobility resisted change were the natural result of an upheaval of traditional society. Resistance to change is natural, but the changes came.

### *What Else Could Happen?*

Other factors occurred during the fifteenth and sixteenth century that would increase the drive towards capitalism. While it began much earlier, the so-called *enclosure movement* hit its stride in the 1600's.

The enclosure movement found lords, always seeking new sources of cash, fencing in lands that were previously used for communal grazing by the serfs. This land was used to raise sheep for the ever more hungry textile industry. With the enclosure movement, many serfs were driven off of their lands. Others essentially went bankrupt. Most moved into the cities, generally destitute and desperate.

In the meantime, the old guilds began to change into types of craft unions interested primarily in increasing the wealth of their membership. This increase would be through monopoly power, i.e., restricting supply, as is generally the case when economic returns are sustained.

Therefore, we had an influx of population without any chance of joining or training in craft trades. These became general laborers who would hire themselves out, i.e., sell labor power, in order to survive. The proletariat was beginning to emerge - one group selling their labor services for a wage, with essentially no control over the process or means of production.

The intellectual awakening also occurred around this time. New discoveries led to progress that was put into many practical applications, not the least of which was navigation.

Navigation led to discovery. Discovery led to colonization and to the influx of precious metals into Europe. The influx of metals facilitated increased trade, since essentially all currency was based on precious metals.

The influx of metals led to inflation. The prices of manufactured goods and services rose much faster than did wages or rents. Profits soared. This is basically because of the success in manufacturing developing significant monopoly power and freedom from competition. The larger profits began the capital accumulation process you heard Marx discuss in his lecture.

To Marx, this was the beginning of the primitive accumulation phase of capitalist development. Primitive accumulation came from trade and commerce, the putting-out system of organization, the enclosure movement on the farms, and the price inflation just described.

As was mentioned before, the merchants needed a strong central government to help maintain their monopoly position. These new and quite wealthy merchants provided money to the monarchs to help build these nations. In return, the monarchs provided trade and other controls to the benefit of existing merchants. These new cooperative arrangements put the merchants and their monarchs in control of emerging nations all over Europe. Central governments did become stronger, unified currencies emerged, and monopolies were granted.

### *The ideology*

The ideology of this new system was framed in the theories of the so-called *Mercantilists*. The Mercantilists view actually began before the great influx of gold and silver from discovery and colonization. Prior to that, supplies of precious metals in Europe were not sufficient to carry on the expanded level of trade and commerce. The central tenant of Mercantilism was based on procedures for gaining precious metals.

Basically, the notion of the Mercantilists was that a nation's wealth depended on the levels of gold and silver it could control. While some could be gained through conquest, the easier and more stable way was through trade. If a nation could continuously export more than it imports, the difference must be made up through the payment of gold and silver. Thus the currency and wealth of a nation could be enhanced.

These policies extended to the period where precious metals were being imported from the new

discoveries and colonies. The easiest way to assure a “favorable balance of trade” was to establish trade monopolies and to control trade through tariffs and quotas on foreign production. Input supplies could be obtained at the most attractive prices if a monopsonist were granted exclusive franchises. Export value could be maximized if the monopolist franchise were the only provider of the nation's goods to foreign powers. Trade monopolies, such as the East India Company of England, were granted exclusive charters for this purpose. They were also protected from competition in the domestic economy to assure their health and economic strength.

The various countries also tried to establish trade monopolies in their colonies. Foreign competition was difficult to keep out in all cases. The stronger the control of the colonial empire, the stronger the control over trade and economic affairs. Colonization became a major competitive weapon by one nation against another.

Extensive regulations were also a feature of the day. These regulations applied to exporting and importing companies. They are the equivalent of trade controls used by modern day Japan to limit foreign competition in domestic markets. These controls were applied to local resource suppliers so they could not take advantage of foreign markets and would provide cheaper inputs to domestic production and, of course, on imported goods and services that would compete with local production. Local exporters were often subsidized and given tax breaks if the regulations and controls did not assure their competitive positions.

The regulations often controlled so much of what local capitalists and merchants could do that there was an eventual backlash. The argument for freedom from state controls began to emerge, which would eventually lead to the demise of the Mercantilist tradition. Conflicts began to emerge that would bring a quick end to the Mercantilist period.