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## UNIT 8 INDUSTRIAL CAPITALISM

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### 8.0 OBJECTIVES

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After reading this Unit, you should be able to

- clear certain basic concepts regarding industrial revolution,
- understand how different writers understand the nature of industrial capitalism, and
- understand that the criticisms and assessment of these writers can take us forward in getting to know the nature of industrial capitalism.

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### 8.1 INTRODUCTION

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This Unit deals with various understandings of the nature of industrial capitalism. The emergence of industrial capitalism transformed to a large extent the nature of production process prevalent in the pre-capitalist phase. The nature of this transformation influenced all aspects of society and economy in a many sided manner. Consequently the attempts to grasp this change tended to be partially or sometimes even incorrectly reflected in various writings. Indeed we are still trying to grasp the phenomenon today.

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### 8.2 THE INDUSTRIAL REVOLUTION AND INDUSTRIAL CAPITALISM

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Many aspects of modern politics in Europe were related to the transformation of economic life during the 18th and 19th centuries. Specifically important here was the growing significance of industrial capitalism during this period. This in turn was linked to the industrial revolution in Europe.

The concept *industrial revolution* suggests primarily certain technological and economic changes, with important social consequences and social origins. It denotes (i) the extensive application of water, steam (and later electrical) power in production systems, (ii) the focus of production in the factory and its formidable mechanization, (iii) major changes in the character and exploitation of "home" and "foreign" markets, and (iv) the near disappearance of subsistence agriculture. This expression refers to the early phase of the dominion of industrial capital in economic and social life

*Industrial capitalism* itself implies the investment of capital in manufacturing industry, with a subordination of labour to such investment and a focus on the maximum extraction of profits

as returns on investment. It may be distinguished from *trading capitalism* or *finance capitalism* which have commercial and financial transactions respectively as their focus; but it is commonly associated with both in a process which established the dominion in many aspects of economic activity, of *capitalism*, i.e. the subordination of economic activity to a profit orientation, extensively using hired labour.

The growing importance of industrial capitalism in Europe is associated with the following developments:

- i) the Industrial Revolution in England during the late eighteenth and early nineteenth centuries. This was primarily the result of the following:
  - a major increase in population;
  - an agricultural revolution, which was linked to population growth and the application of new techniques and machinery in cultivation;
  - the application of new techniques of production in the cotton and iron and steel industries;
  - the gradual abandonment of cottage industry and a focus of production in factories, where it could be more rigorously supervised
- ii) "learning" from England in France and Germany during the nineteenth century, and changes in industry in both countries along similar lines as mentioned above. In both countries, the construction of railways in the mid-nineteenth century was crucial to the growth of industrial capital.
- iii) the development of industrial capitalism in other countries (Russia, and Hungary for instance) in the late nineteenth century, thanks to capital investments from the established industrial nations.
- iv) the increasing importance for all these nations of markets in colonies and underdeveloped regions of the world towards the end of the nineteenth century,

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### 8.3 IMPORTANT ASPECTS OF INDUSTRIAL CAPITALISM

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According to contemporary and latter day commentators, *industrial capitalism*, and the impact of the *industrial revolution* created a situation whereby industry was increasingly *rationalized*. Here, *rationalization* implied the subordination of production to calculation -- a development which had been less important earlier, since hired labour and technology were rarely concentrated in one place, where the influence of the capitalist could exert itself effectively.

Among the consequences of such change were *economies of scale*, where, as production increased, each unit of manufacture became cheaper in terms of costs of production. A *diminution of dependence on natural forces* (climate, cardinally) followed from the integration of markets (which made communities less susceptible to deprivation following drought or epidemic). *Major changes in ecological balance* resulted from the scale of demand and production: well known here is the deforestation of large sections of the United States and Russia, and the destruction of wild herds in the United States. An important feature was also the rigorous subordination of economic activity to the *troughs* and *booms* of the *trade cycle*, whose nature varied in accordance with alterations in investment and consumption. Adaptation to these various features of industrial capitalism is associated with *modernity*, which is contrasted to *traditional* casts of mind in which these aspects of economic life were not everyday features.

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### 8.4 APPROACHES TO THE STUDY OF INDUSTRIAL CAPITALISM

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How did various writers understand these changes? Let us turn to this aspect.

### 8.4.1 Early Writers on Political Economy

As the Industrial Revolution itself took place, the processes of capitalism attracted the attention of economic commentators who were critical of earlier views of growth. Criticism pursued mercantilists who were concerned with the methods the state might use to promote prosperity, through regulation of foreign trade; criticism was also levelled against physiocrats who were mainly concerned with general improvements in the productivity of the land. In writing on economics (or political economy) a proper integration of the various forces which were crucial to capitalism (population, entrepreneurship, demand, rent, profit, state policy etc.) were achieved by Adam Smith (1723-1790), David Ricardo (1772-1823) and Thomas Robert Malthus. Of these the former (i.e. Smith), in his *Inquiry into the Nature and Causes of the Wealth of Nations* established a critique of mercantilism and physiocracy, and stated an analysis of the basis of value in labour, following a general discussion of value in use and value in exchange. He supported a limited role for government in human affairs, arguing that its intervention was "generally harmful". Along with many free-trade minded liberals of the time, he supported the principle of *laissez faire*. Smith accepted the occurrence of social disparities when individuals pursued their own ends; but he was optimistic that overall prosperity would ensue, and that a degree of "harmony" with the onset of 'perfect' competition in prosperity would exist in social relations.

Both Ricardo and Malthus were more pessimistic than Smith in their approach to the economy of industrial capitalism. Ricardo argued that he was confident of the "law" stated by the French thinker Jean-Baptiste Say, that crises of overproduction or a glut of capital was impossible in a country; but he was equally convinced that steady increases in rent, which would follow more production and a growing population, might be the foundation of economic crises. Malthus, on the other hand, saw a rising population, which was the necessary consequence of growth, as the ultimate brake on prosperity. Such reservations reinforced "utilitarian" views, associated with Jeremy Bentham, that some role for government was still to be found in the pursuit of prosperity: primarily to ensure the "greatest happiness of the greatest number", which might, in various circumstances, be threatened by the greed of the minority.

Meanwhile, Smith's optimism regarding the ability of classes to arrive at a harmonious pursuit of prosperity, despite disparities of income, was challenged by Socialist writers who otherwise did not argue with the way he had dealt with the analysis of the economy. Hence, Sismonde de Sismondi (1773-1842), saw production increasing rapidly within capitalist development, but also foresaw a growth of inequalities, which could not be resolved, except through state intervention. Proudhon (1809-1868), considered that the injustices which were linked to inequalities must be ameliorated by "mutualism" or the activities of voluntary associations which would perform the regulatory functions of an interventionist state. Karl Marx (1818-1883) attempted to isolate the course that inequality would run, and argued that capitalism itself would collapse eventually.

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## 8.5 REFLECTIONS ON THE HISTORY OF INDUSTRIAL CAPITALISM - I

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Such writing (together with neo-classical development of such views and the work of J.M. Keynes), dealt more with the character of growth in terms of components or factors, and the problems of overall patterns of growth. It produced the terms in which industrial capitalism could be viewed, but it did not attempt to come to terms with the details of the historical experience of various countries, other than to collect data which could be of use to find out whether specific theories might be plausible. It remained for latter day economic historians, preoccupied with the past of industrialization, to advance certain models of how growth took place globally; and the writers who have been of greatest influence in the case of European history have been W.W. Rostow and Alexander Gerschenkron.

### 8.5.1 Rostow

Here, W.W. Rostow, in his discussion of the stages of economic growth argues that growth has followed five stages:

- Traditional society, where innovation occurs in both industry and agriculture, but there is a limit on "the level of attainable output per head".

- Societies “in a process of transition” in “the period when the pre-conditions for take-off are developed”, where transition might be the result of circumstances where “the insights of modern science began to be translated into new production functions” in agriculture and industry “in a setting given dynamism by the lateral expansion of world markets and the international competition for them”; or (the more “general case”) where there occurred an “intrusion” which created a shock leading to the path towards modernity.
- The stage of take-off which is “the interval when old blocks and resistances to steady growth are finally overcome”, where “enclaves of modern activity” expand and dominate society, and where “growth becomes the normal condition”. Here, investment of the Gross National Product or GNP must increase from about 5% upto 10% on average, and it must be marked by large reinvestment in industries and large scale changes in agriculture. It is a stage to be seen in Britain in the twenty years after 1783; in France and the USA in the decades before 1860; in Germany in the 1850-1875; period; and in Russia and Canada in the twenty-five years before 1914.
- The drive to maturity, when an economy become fully part of an international economy, the significance of established leading sectors decline and investment stands at 10-20% of GNP.
- The stage of high mass consumption, where greater resources are devoted to social welfare, and where the focus of the economy shifts from leading sectors to durable consumer goods

### 8.5.2 Gerschenkron

Alexander Gerschenkron, on the other hand, in his discussion of *backwardness in historical perspective*, argues that stress on “preconditions” or “take-off” is unwarranted, since these hardly exist in any consistent way in industrialization. He argues that industrialization shows a path, but in the way the path is followed there may be major differences. He is opposed to the idea that “the industrially more developed country presents to the less developed country a picture of the latter’s future”; rather, he feels that “the development of a backward country may, by the very virtue of its backwardness, tend to differ fundamentally from that of an advanced country”.

Gerschenkron proposes the following:

- That the nature of the industrialization process in a backward country shows differences when compared with advanced countries in the rate of industrial growth and (more significantly), in its organization and nature of production.
- These consequences are the result of the application of “institutional instruments” for which no counterpart exists in established industrial nations.
- The intellectual climate of industrialization is substantially different.
- “The extent to which these attributes of backwardness occurred in individual instances appears to have varied directly with the degree of backwardness and the natural industrial potentialities of the countries concerned”.

Novel banking networks and the intervention of the state are the “institutional instruments” that Gerschenkron isolates as crucial to industrialization in “backward” states of Europe. Hence, in France, a new form of industrial banking emerged during the reign of Napoleon III, which changed the direction of established wealth and established a model of banking which thereafter became widely established on the continent. This model was developed in new directions in Germany. In Russia, on the other hand, the state, inefficient though it was, was inspired by military interests to establish a firm path towards industrialization

#### Check Your Progress .

- 1) What do you understand by the term industrial capitalism?

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2) What was Adam Smith's criticism of the physiocrats and the mercantilists?

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3) Why does Gerschenkron argue that there are no specified 'take offs' for industrialisation?

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## 8.6 REFLECTIONS ON THE HISTORY OF INDUSTRIAL CAPITALISM - II

The perspectives of Rostow and Gerschenkron have stimulated understandable criticisms. True, in contrast to the work of economists, they have provided a historical perspective to growth under industrial capitalism. However, the cardinal elements and periodization of that perspective are not easily justified. Many of Rostow's pre-conditions for take-off are themselves, for instance, features of take-off itself: hence the question "where lies the difference between the two stages?" As Marcewzski has pointed out, moreover, in the case of the French economy, which can hardly be considered non-industrialized by the end of the nineteenth century, no significant period of take-off is discernible, since no period of growth accords with the standards set by Rostow. Gerschenkron's perceptions have not been subject to criticism on the scale that Rostow's have, since he has restricted himself to discerning tentative patterns. His modesty, though, is clearly his weakness, since it is not clear whether the nature of the pattern he discerns has further generalizing value; and he himself does not see the pattern repeat itself in the cases of the Austro-Hungarian Empire, Spain, Italy or Romania, even if there are points of similarity.

More crucially, there has been a proliferation of the studies of industrial capitalism before its authoritative ascendancy, and commercial capitalism before the 19th century, which have drawn attention away from the growth of the "industrial revolution" period. Such concerns came to be popularized mainly in Fernand Braudel's discussion of *Capitalism and Material Life* and the readings on *proto-industrialization* which are published in Peter Kriedte, Hans Medick, and Jurgen Schlumbohm in *Industrialization before Industrialization* (initially published in 1977); they are also the focus of Immanuel Wallerstein's discussion of the "world system" and *The Capitalist World Economy*. Both Braudel and Wallerstein discuss the sophistication of tastes in early modern Europe and the demand it generated for a variety of products -- a demand that could only be satisfied by changes in systems of production and developments in Europe's commercial links with other world markets. This engendered a long term development of capitalism in Europe from the fifteenth century onwards and, more specifically from the mid-sixteenth century (according to Wallerstein).

Students and scholars of proto-industrialization, meanwhile, admit the remarkable character of the industrial capitalism of the late eighteenth and nineteenth centuries, but are more concerned with the nature of the "system" or dispensation which generated it. This stage of "proto-industrialization" has been associated with cottage or domestic industry, whose character was earlier traced extensively by scholars of the Historical School of Political Economy in Germany (A. Schaffle and W. Roscher). The significance of such enterprise for later capitalism was fixed by Werner Sombart when he noted that "the history of domestic industry is the history of capitalism. Disguised in the form of domestic industry, capitalism likes to steal its way into an economic region...". Proto-industrialization itself became the focus of Franklin F. Mendels and Charles and Richard Tilly, who conceptualized the

phenomenon as "the development to rural regions in which a large part of the population lived entirely or to a considerable extent from industrial mass production for inter-regional and international markets".

Such concerns have clearly drawn attention away from the period of the ascendancy of industrial capitalism and placed it within a framework of the "long term" -- reducing substantially the urgency of many of the preoccupations of Rostow and Gerschenkron

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## 8.7 REFLECTIONS ON THE HISTORY OF INDUSTRIAL CAPITALISM - III

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In the recent past, attention has focused on aspects of capitalism that are undoubtedly of importance for this phase of industrial capitalism and, later, finance capitalism. The cynosure here is the social and cultural consequence of capitalism; but writers deal with this in a way wholly different from social historians who lamented the hardships for the working class of industrialization. Here, the work of Derek Sayer is a useful reference to show what is the concern of recent commentators on industrial capitalism. Sayer provides a perspective on the broader implications of the economic analyses by Karl Marx of capitalism and the social analysis by Max Weber of the same phenomenon. Sayer's essay indicates how industrial capitalism and capitalism generally (in the way Braudel deals with it), has generated "modernity" and a preoccupation with "modernity"; and he writes about the nature of that "modernity". The implication, correctly, is that industrial capitalism cannot be associated purely with economic transitions and its limited social consequences, even over the long term. It is part of much broader developments.

Sayer points out that Marx did not associate capitalism with specifically economic features. Rather, Marx thought of it as a stage of development which overcomes a situation where "the individuals may appear great" but "free and full development, either of individual or society is inconceivable". Asserting the importance of wage labour and general "commodification" as crucial features of capitalism, Marx stressed, though, that what was most significant to such capitalism was that it affects almost all social relations. Once the process is set in motion, it "revolutionizes both the material production processes and the social relations on which it rests". The first stage in what happens is Manufacture (mid-XVI-last third XVIII century) where "capital transforms the social relations of production without as yet fundamentally altering the material forms of the production process itself": craft workers are brought into a single workshop and subordinated to a single capitalist, enabling greater labour discipline. Production also is co-operative, in the sense that there now appears a detailed division of labour in the workshop and in society; and it is competitive. During this phase, such processes are "more or less accidental." But, during the next phase, that of Modern Industry, these processes "are the rule," and there is a transformation in the extent to which labour is subordinate to capital. Illusions of individual significance and citizenship are crucial to this transformation. "Things" (or "commodities") become crucial to all relationships; all "use value" is an aspect of "exchange value".

Sayer points to Marx's impression of a scenario that far transcends a limited economic transformation:

"...in exchange value, the social attitude of persons is transformed into a social attitude of things; personal capacity into a capacity of things. The less social power the means of exchange possesses, the more closely it is still connected with the nature of the immediate product of labour and the immediate needs of its exchangers, the greater must that power of the community still be which binds together the individuals, the patriarchal relationship, the community of antiquity, feudalism and the guild system."

While agreeing with many of these insights, later writers, Sayer points out, such as Max Weber, Michel Foucault or Norbert Elias, have disputed the factors on which this broad socio-economic and cultural transformation rests -- whether it be called "modernity" or "capitalism". If, for Marx, it is the product of a complex economic process, for Weber it is the consequence of a cultural process which does not exclude economic implications, but was fundamental to it. This cultural process centred on an increasing obsession with calculation, which was defined as reason. Elsewhere, for Michel Foucault, it is the change in the discursive paradigm

of society that is crucial to capitalism and modernity, while, for Norbert Elias, it is the very personal discipline of individuals in society. Sayer implies that these perspectives have come to gradually alter the way historians write about industrial capitalism.

### Check Your Progress 2

- 1) What do you understand by 'proto-industrialisation'?

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- 2) Can industrial capitalism be associated with merely economic transitions?

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## 8.8 LET US SUM UP

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In this Unit, you saw that:

- Industrial capitalism is a social formation which has manufacture with subordination of labour to it as its major focus. In its wake the entire gamut of social and economic processes get transformed,
- How attempts to understand industrial capitalism by various writers has changed over time,
- the criticism and assessments of these writers centred around how value is created in industrial capitalism and how such a formation runs into crisis.

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## 8.9 KEYWORDS

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<b>Economies of scale</b>	:	System of manufacture where goods are mass produced. This is unlike the handicrafts and cottage industry where production of goods is limited necessarily because of lack of technology to produce on mass scale.
<b>Laissez faire</b>	:	A system of trade between nations where no restrictions to imports or exports is placed.
<b>Physiocrats</b>	:	Writers on political economy under the guidance of J Quesnay who argued that wealth of a nation was based on productivity of land. These writers then basically believed that the capital and labour set in motion by agriculture only could lead to economic development. Since industrial and trading activity were not assisted by the gift of nature as in agriculture, these were secondary and no restrictions should be placed on these since they were primarily developing wealth produced by agriculture. Thus the physiocratic thinking and laissez faire school developed a common link.

**Voluntary association :** Groups whose membership is on the basis of one's choice and not as a member of a community or religion etc.

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## **8.10 ANSWERS TO CHECK YOUR PROGRESS EXERCISES**

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### **Check Your Progress 1**

- 1) See Section 8.2. You could elaborate on how industrial capitalism is a social formation with manufacture as its central focus.
- 2) See Sub-sec. 8.4.1. You could focus on how Smith identified value in labour.
- 3) See Sub-sec. 8.4.2. You could elaborate on how Gerschenkron points out that there is no consistent path to industrialisation.

### **Check Your Progress 2**

- 1) See Section 8.6. Stage of industrialisation associated with cottage or domestic industry.
- 2) See Section 8.7. Views of Marx, Sombart and Weber are useful.