SUMMARY

CAPITALISM

JAMES FULCHER

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Summary of “Capitalism” by James Fulcher

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A brief overview of capitalism.

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Introduction

Capitalism is everywhere. It affects every facet of our lives. From our careers to our finances to our mental health to our conversations on social media, there is no area of our existence that is not impacted by capitalism. But how much do you really know about it? James Fulcher observes that many people have very strong feelings on capitalism and its impact on our daily lives, but we often know little about its history as a socioeconomic system. So, over the course of this summary, we will chart the history of capitalism to explore its progression and understand how we got where we are today.

The Fundamental Principles of Capitalism

So, what is capitalism really? The popular financial website Investopedia provides a simple definition of capitalism which affirms, “Capitalism is an economic system in which private individuals or businesses own capital goods. The production of goods and services is based on supply and demand in the general market—known as a market economy—rather than through central planning—known as a planned economy or command economy.The purest form of capitalism is free market or laissez-faire capitalism. Here, private individuals are unrestrained. They may determine where to invest, what to produce or sell, and at which prices to exchange goods and services. The laissez-faire marketplace operates without checks or controls.”

But what does that really mean in practice? And why do people hate capitalism so much? To unpack this definition, let’s take a closer look at the term “capital goods” employed in the previous paragraph. “Capital goods” is a versatile term that can be used to refer to money or anything else that functions as money. Capitalism is also heavily dependent on private property, like your home or your land. The financial analyst Jim Chappelow observes that “private property rights are fundamental to capitalism. Most modern concepts of private property stem from John Locke's theory of homesteading, in which human beings claim ownership through mixing their labor with unclaimed resources. Once owned, the only legitimate means of transferring property are through voluntary exchange, gifts, inheritance, or re-homesteading of abandoned property.

Private property promotes efficiency by giving the owner of resources an incentive to maximize the value of their property. So, the more valuable the resource is, the more trading power it provides the owner. In a capitalist system, the person who owns the property is entitled to any value associated with that property. For individuals or businesses to deploy their capital goods confidently, a system must exist that protects their legal right to own or transfer private property. A capitalist society will rely on the use of contracts, fair dealing, and tort law to facilitate and enforce these private property rights."

To contextualize this concept, we'll consider a hypothetical example. So, let's imagine that your brother-in-law is in jail for some reason and you have to pay his bail. But you might not have all that cash on hand. So, you can take out a mortgage on your home and use this as collateral. Collateral is defined as something pledged as security for repayment of a loan, or something that can be forfeited in the event of a default. So, in this example, even though your home is not money (or capital) it can act as capital in this context. However, this is something of a negative example. On the positive flipside, under a capitalist system, you could also use your money to make money. For example, let's imagine that you bought a house. You already have a home that you live in, so this is just an extra house. You had to spend money to buy that house-- but you can also rent it out to people through Airbnb. That means you'll literally be making money as a result of the money you invested in your house! Sounds like a pretty great deal, right? It definitely can be!

But unfortunately, all aspects of capitalism are not positive. Because if capitalism had a theme song, it would be "C.R.E.A.M" by Wu-Tang Clan. (If you're familiar with the song, then you already know that C.R.E.A.M is an acronym for "Cash Rules Everything Around Me"). And that statement has never been more true than in a capitalist society! Because if capitalism's core principle is "using money to make money," then that means that a capitalist society is-- by default-- obsessed with making and spending money. So, that means you need two kinds of people: the people who make money and the people who spend it. And, unfortunately, the people in these two categories rarely experience an equal quality of life.

For example, just imagine a billionaire. Maybe he inherited his money from his family or maybe he made it through a few convenient business investments. No matter how he got it, one thing is for sure: he now falls squarely in the "making money" camp. He can spend a lot of his money and pour it back into the economy if he wants, but mostly, he just gets to rake in wad after wad of cash. He already has a home (and it's probably a really nice one), so he's not worried about paying rent. He's also not worried about working to make money. Instead, he gets to sit back and let his company continue to reap substantial profits. But, as you've probably noticed, everyone is not a billionaire. The rest of us fall in the "people who spend money" category. Under a capitalist mentality, you can also think of ordinary people as "wage slaves."

In practice, that means that we have to work in order for the economy to succeed. Every type of industry in our society needs people who can do the work and, because we aren't billionaires, we have to work for money in order to survive. In most cases, we have to work pretty hard for that money as well. But unlike the billionaire, we rarely get to keep the hard-earned fruits of our labor. Instead, we must constantly pour our money back into the economy, spending exorbitant amounts on food, housing, healthcare, and transportation. And because we need all of these things, new businesses develop, offering the services we need in exchange for more of our hard-earned money. Therefore, this never-ending cycle contributes to the economy, creates jobs, and siphons the money of the wage laborers.

In capitalism, this process is referred to as "production" and "consumption" because it's built on the interactive balance of producing and consuming material goods or services. These processes are interactive because each encourages the development of another. For example, if there is a market for a certain type of product or service (i.e. people who want to consume or buy that thing) then that creates a demand for the production of that thing. So far, that sounds pretty good, right? So far, capitalism appears to follow a neat and understandable chain of cause and effect. If we were to summarize that chain more concisely, it might look something like this: People need money. People also need goods, services, and jobs. People who perform those services and make those goods receive lages in exchange for their labor. Their wages then go to purchase things like food and shelter and to consume other goods that they need. This furthers the whole cycle and keeps the economy going.

This cycle also enables the creation of something called a capitalist market. We might think of a market in the sense of a farmer's market or a street fair and that's exactly how the concept of a market works in capitalism! Put simply, a market is a place where you can buy and sell things. In olden times, this might have been a physical location in the town center where a variety of vendors clustered. For example, you might have the butcher, the fishmonger, and the dairy farmer, and you would do your weekly grocery shopping at their stalls. Today, similar market structures still exist. If you go to your local farmer's market or a craft fair, you can still connect with artists and craftspeople and exchange your money for their goods. But although the location of your market might change, the core transactional process remains the same whether you shop on Amazon or at your local supermarket.

So, why are we covering this when we all know how a grocery store works? Well, this topic is relevant because a capitalist market differs from that of other socioeconomic systems. Because capitalism is all about using the money you have to make more money, this socioeconomic model encourages competition. So, for example, let's imagine that you run a coffee booth in your local farmer's market. Maybe you've run your booth for years. And because you're the only coffee shop in the area, you have loads of customers. But then one day, some new coffee booth opens up! At first you think, "They'll never succeed! I have an established business!" But then the new guy starts marketing his coffee as being half the price of yours. Suddenly, you start losing customers because they've realized that they can get the same cup of coffee-- or perhaps even better coffee!-- for a better price.

This is a prime example of competition in a capitalist market. That's because a capitalist system gives everyone the right to produce and sell their own goods and services. It also gives everyone the opportunity to make more money through competition, especially where that means outselling or undercutting the other businesses in your field. If you can successfully drive business away from your competitors and claim it for yourself, then you can maximize your profits. So, what could go wrong?

The History of Capitalism

In order to understand the pros and cons of a capitalist system, you need to know a little more about capitalism's origin story. To give you a brief overview, capitalism evolved from a medieval socioeconomic model called feudalism. Feudalism is defined as being the dominant social system in medieval Europe, in which the nobility held lands from the Crown in exchange for military service, and vassals were in turn tenants of the nobles, while the peasants (villeins or serfs) were obliged to live on their lord's land and give him homage, labor, and a share of the produce, notionally in exchange for military protection. It was in practice from roughly the 12th century to the 16th century.

Feudalism had a hint of budding capitalism because it laid the foundation for a unique opportunity: if you had a special good or service you could offer, you could move away from the lord's land and into town where you could ply your trade in exchange for money. The ability to earn your own money was a game changer for the average man. If you could earn your own money, you could change the course of your entire future. And rather than simply being allowed to exist on a rich man's land with no guarantee of food or shelter, an income granted you the ability to provide for yourself and move up in the world. Unsurprisingly, this became a popular socioeconomic model and more people sought the opportunity to learn a trade and earn an income. This eventually evolved into a trade-based socioeconomic system known as mercantilism. Jim Chappelow observes that "Mercantilism gradually replaced the feudal economic system in Western Europe and became the primary economic system of commerce during the 16th to 18th centuries. Mercantilism started as trade between towns, but it was not necessarily competitive trade. Initially, each town had vastly different products and services that were slowly homogenized by demand over time."

Ultimately, mercantilism gave way to capitalism as the world began to crave the opportunity for a competitive free market. And capitalism has been highly profitable in the Western world, particularly in its early days. Writing of capitalism's benefits, Chappelow observes that "industrial capitalism tended to benefit more levels of society rather than just the aristocratic class. Wages increased and this was helped greatly by the formation of workers' unions. The standard of living also increased with the glut of affordable products being mass-produced. This growth led to the formation of a middle class and began to lift more and more people from the lower classes to swell its ranks. The economic freedoms of capitalism matured alongside democratic political freedoms, liberal individualism, and the theory of natural rights."

However, that's not to say that capitalism is a completely awesome thing. It has also done a great deal of harm, especially in the twenty-first century. These negative effects are most keenly felt by the lower and middle classes who struggle with grave disparities in financial inequality. Many people feel that they are doomed to work their entire lives just to earn a living wage. Despite working 40 hours a week-- and sometimes longer, more inhumane hours-- they still struggle to make ends meet. They have no hopes of creating a savings account or using their hard-earned money to make a better life for themselves. Likewise, many students are struggling under the crippling burden of debt thanks to student loans. Because they cannot afford to pay for their education, they will spend the rest of their lives in a vain attempt to repay hundreds of thousands of dollars while billionaires continue to profit off the struggles of underpaid, indebted workers. Capitalism might be all about making more money from the money you have, but what can you do if you don't have any money to begin with? As a result, many people feel that capitalism is not the right socioeconomic system for their country.

Final Summary

Many people have very strong feelings about capitalism, but how much do we really know about its function, nature, and origin? By providing readers with a brief overview of capitalism, James Fulcher seeks to chart the history and practice of capitalism and provide readers with an accessible introduction to the Western world's dominant socioeconomic system. At the core, capitalism is about using your money (or capital) to generate more. This can be a great system for the economy because it encourages the production of goods and services and creates more jobs for those who need them. However, it can also lead to a toxic obsession with productivity and consumerism and result in gross financial inequalities among the socioeconomic classes.