Economic Transitions: The Emergence of Early Capitalism

The Middle Ages was characterized by decentralized political power, small economies based on the manorial system where lords and peasants produced for local consumption, and the social and cultural influence of the Roman Catholic Church. The Italian Renaissance initiated a return to humanism and individualism within philosophy and art, and also introduced secular political theories (Machiavelli) and balance of power diplomacy (Italian city-states). The Northern Renaissance applied humanism and individualism to reform movements (Erasmus) taking place within the Roman Catholic Church and the "new monarchies" of Spain, France, and England increasingly centralized political power. The influence of individualism continued with the arrival of the Protestant Reformation, which ultimately challenged both religious and political authority. The religious uniformity of Europe was shattered as Protestantism and Catholicism competed for spiritual and political influence. A "new world" was emerging as previous worldviews and assumptions began to be challenged. Amidst the drastic religious and philosophical changes taking place, significant economic changes were also initiated that would have long-term consequences. European overseas exploration and mercantilism fueled each other as monarchs enriched their nation-states and an emerging class of merchants promoted a new commercial ethic. The discovery of unknown continents and the introduction of a new mode of economic production represented the final transition and departure from the Medieval to the Modern world.

The Portuguese began the "Era of European Exploration" when they visited the African coasts in search of gold and slave labor. Warfare within Africa produced political prisoners who were traded for horses and European manufactured goods. Later, the Portuguese sought a sea-route around Africa to Asia's spice markets and the Roman Catholic Church supported their efforts with the intention of Christianizing pagan and Muslim lands. While the Portuguese explored the Indian Ocean, the Spanish attempted to find a shorter route to Asia by sailing across the Atlantic. What began as voyages of discovery quickly became expeditions of conquest.

Spain conquered and claimed vast territories in the "New World" and the natural resources and wealth extracted from the Americas helped finance Spain's role in European political and religious disputes. Other European countries also began to finance their own expeditions as the "new monarchies" sought to increase their personal wealth and finance their growing militaries and bureaucracies. The Native Americans suffered from conquest, disease, and forced labor. The Spanish conquest brought Roman Catholicism and a new social hierarchy based on native inferiority and European superiority. Drastic religious and social changes essentially destroyed entire cultures and histories as “Latin America” was gradually constructed by the Spanish Empire. Catholic missionaries sought to spread Christianity and European-style education to the natives, while merchants sought to exploit the natural resources and native labor.

The colonial economy of Latin America had three major components: mining, agriculture, and shipping. Native American forced labor and African slave labor were used to extract natural resources and produce agricultural goods for the benefit of the Spanish monarchy. Whether the influx of precious metals from the New World, the availability of cheap labor overseas, or the general population increase within Europe caused the “price revolution” (rising inflation), the phenomenon of increasing prices and decreasing wages that fueled and enabled increased commercial investment is referred to as the “Commercial Revolution.” Overseas markets expanded and joint-stock companies with large amounts of capital were able to make unprecedented profits on their investments, which created a new merchant class. The “price revolution” resulted in goods being more expensive (increased revenue) and labor being cheaper (increased profit). Overall, the standard of living declined for the lower class, while the landed aristocracy and merchant class became wealthier. The rise of commercial capitalism involved a gradual transition from town-centered economies to nation-centered economies.

The previous mode of production, local production and consumption without significant profit, was replaced by a new commercial capitalism where goods were produced for faraway places based on future demand. The previous mode of production was characterized by small workshops and guilds of craftsmen who regulated their own working conditions and owned their own capital. The new commercial, nation-centered economies were characterized by wage laborers who did not own their own capital or the finished products. Gradually, the small shop owner was replaced by the merchant who owned a larger manufacturing enterprise and production was based on profit and distant markets rather than local needs. In the Middle Ages banks were forbidden from charging interest because it was considered usury and criticized as avarice. Over time, theologians and public opinion began to distinguish between “usury” and “legitimate return.” Charging interest gradually became an accepted feature of the new commercial capitalism.

The dominant economic philosophy became mercantilism, which was hostile to the local, town-centered mode of production that favored the guilds. Mercantilism was a theory that emphasized the accumulation of bullion (gold and silver) and a favorable balance of trade (more exports than imports). Mercantilism replaced the local protectionism and tariffs of town-centered economies with tariffs designed to favor the entrepreneurs producing for overseas markets who were competing with other nation-states. Monarchies promoted free trade within their own countries and embraced protectionism in their competition with other countries. Government subsidized monopolies were created to effectively compete in the global marketplace. According to mercantilist theory, a nation’s wealth increases at the expense of other nations because each nation is competing for a limited amount of resources and finite amount of money. Mercantilists argued that government intervention in the economy was desirable so that the nation could prosper in its competition with other nations. The result was an emerging global economy dominated by large joint-stock companies and powerful monarchies. The localized stability of the Middle Ages gave way to transnational competition and the pursuit of profit.

The emergence of the Modern world, initiated by the Italian Renaissance, introduces one of the central themes of European history: the paradox of progress. The same civilization that produced the artistic achievements of the High Renaissance and challenged a corrupt clergy also imposed its values on people it deemed inferior; and increased its own wealth due to forced and slave labor in overseas colonies. The same humanistic worldview that celebrated the intrinsic dignity of humanity and insisted that man could become divine also used other human beings as the means to a financial end and arguably acted more barbaric than those whom they deemed uncivilized. While Europeans did not view themselves as “Europeans” during the 16th century, what the world has come to perceive, criticize, and celebrate as “European culture” contained within it contradictions and paradoxes from the very beginning. As the Renaissance and Protestant Reformation concluded, the secular, humanistic, individualistic, and scientific impulses that had been released within European culture would generate further advances in political theory and scientific inquiry.