



1958

4. The Rise of Capitalism

Robert L. Bloom
Gettysburg College

Basil L. Crapster
Gettysburg College

Harold A. Dunkelberger
Gettysburg College

See next page for additional authors

Follow this and additional works at: https://cupola.gettysburg.edu/contemporary_sec5

 Part of the [Cultural History Commons](#), and the [Economic History Commons](#)

Share feedback about the accessibility of this item.

Bloom, Robert L. et al. "4. The Rise of Capitalism. Pt. V: The Rise of Capitalism and the National State to 1500." Ideas and Institutions of Western Man (Gettysburg College, 1958), 22-28.

This is the publisher's version of the work. This publication appears in Gettysburg College's institutional repository by permission of the copyright owner for personal use, not for redistribution. Cupola permanent link: https://cupola.gettysburg.edu/contemporary_sec5/4

This open access book chapter is brought to you by The Cupola: Scholarship at Gettysburg College. It has been accepted for inclusion by an authorized administrator of The Cupola. For more information, please contact cupola@gettysburg.edu.

4. The Rise of Capitalism

Abstract

It will be seen from the foregoing that some of the spirit and practices of modern capitalism were already apparent as early as the eleventh and twelfth centuries. European thought was becoming more secular with the development of a mercantile culture which stressed the production of goods for profit in contrast with the former emphasis on production for use. Medieval man began exploiting opportunities for more effective production and its distribution of the products of farm, mine, and shop. From this search evolved the economic system we call capitalism. In its rudimentary form this institution was not unknown during the Dark Ages. Though, greatly overshadowed, it provided some opportunities for entrepreneurial activity during the early Middle Ages, and thus capitalism that emerged full-blown in the sixteenth century was the result of an evolutionary process of trial and error. [*excerpt*]

Keywords

Contemporary Civilization, community, society, government, commerce, industry, capitalism, economy

Disciplines

Cultural History | Economic History | Economics | History

Comments

This is a part of [Section V: The Rise of Capitalism and the National State to 1500](#). The [Contemporary Civilization](#) page lists all additional sections of *Ideas and Institutions of Western Man*, as well as the [Table of Contents](#) for both volumes.

More About Contemporary Civilization:

From 1947 through 1969, all first-year Gettysburg College students took a two-semester course called Contemporary Civilization. The course was developed at President Henry W.A. Hanson's request with the goal of "introducing the student to the backgrounds of contemporary social problems through the major concepts, ideals, hopes and motivations of western culture since the Middle Ages."

Gettysburg College professors from the history, philosophy, and religion departments developed a textbook for the course. The first edition, published in 1955, was called *An Introduction to Contemporary Civilization and Its Problems*. A second edition, retitled *Ideas and Institutions of Western Man*, was published in 1958 and 1960. It is this second edition that we include here. The copy we digitized is from the Gary T. Hawbaker '66 Collection and the marginalia are his.

Authors

Robert L. Bloom, Basil L. Crapster, Harold A. Dunkelberger, Charles H. Glatfelter, Richard T. Mara, Norman E. Richardson, and W. Richard Schubart

4. The Rise of Capitalism

It will be seen from the foregoing that some of the spirit and practices of modern capitalism were already apparent as early as the eleventh and twelfth centuries. European thought was becoming more secular with the development of a mercantile culture which stressed the production of goods for profit in contrast with the former emphasis on production for use. Medieval man began exploiting opportunities for more effective production and distribution of the products of farm, mine, and shop. From this search evolved the economic system we call capitalism. In its rudimentary form this institution was not unknown during the Dark Ages. Though greatly overshadowed, it provided some opportunities for ^{entrepreneurial} activity during the early Middle Ages, and thus the capitalism that emerged full-blown in the sixteenth century was the result of an evolutionary process of trial and error.

Three exceedingly secular ideas marked the rising spirit of capitalism: acquisition, specifically the acquisition of wealth in terms of money as the guiding principle in life; competition, which meant the right to act free from external regulation but within the legal code; and rationality, which involved long-range planning, exact calculation, and the adaptation of means to ends. In practice these ideas emphasized private ownership of the means of production and distribution of goods rather than the semi-collective arrangement which prevailed under manorialism. Private initiative governed economic activities and the primary incentive for undertaking such activities was the expectation of making a profit. Individuals

*opposite of guild
Competition, acquisition (guilds - no getting ahead) get more and more
rationality - planning ahead (guild didn't get involved in this).*

or groups of individuals assumed the risks incident to the production and distribution of goods and enjoyed the gains of their enterprise. Finally, capitalistic enterprise stressed large-scale production, required a money economy, and sought expanding markets.

Many students have pointed out that modern capitalism has passed through three main stages of development. The first of these, called commercial capitalism, was characterized by an emphasis upon the distribution of goods. This emphasis predominated during the Middle Ages and into the early modern period. The second stage, called industrial capitalism, began in the eighteenth century and concentrated upon the production of goods. Finance capitalism, the third stage, typical of the late nineteenth and twentieth centuries, was dominated by a desire to gain profits by meeting the increasing capital requirements of business. If the pepper merchant is characteristic of the first stage and the steel manufacturer of the second, then the investment banker is typical of the third stage of capitalism.

Commercial capitalism grew from the activities of the bourgeoisie, the merchants and craftsmen who dwelt in the towns and who provided the goods and the market places where they were exchanged. The energetic and thrifty among them began to accumulate wealth and, despite the frowns of the Church, invested in shops and manufacturing. They thus became owners, employers, and in some cases merchant princes. These wealthy bourgeoisie were a minority of the town population, but they often used their wealth to control town government to the disadvantage of the small shopkeeper and artisan. Urban population, therefore, tended to bifurcate into two antagonistic divisions: the upper and lower bourgeoisie. Unrepresented in town government, uneducated, lacking the capital that was the source of power in the new society, the latter had little hope of bettering their condition very much.

This division produced social unrest in the towns during the fourteenth and fifteenth centuries and the lower classes engaged in sporadic rebellions. In Italy and Flanders the urban workers constituted the insurrectionary element and in England, France, and Germany they combined with discontented peasants to challenge the political domination and social position of the upper classes. Since they lacked the experience, organization, and equipment necessary for sustained rebellion, they were uniformly unsuccessful, but out of their social restiveness emerged the germ of a new urban class: the proletariat. (The wide gap between the economic and social status of the rich minority and the poor majority promoted a class consciousness which, in varying degrees, has characterized Western Civilization to the present day.) ?

The great mass of townsfolk who performed the necessary and commoner tasks associated with urban life remained without power and generally inarticulate throughout the Middle Ages.

Three stages. Commercial capitalism first seen in Italy.

^(town/folk)
 The more affluent, however, established for themselves a social position more in keeping with their economic status. Occupying a position between the nobles on the one hand and the peasants and urban workers on the other, they became the "middle class." Kings came to depend upon them and impoverished knights were induced to enter into marriage with their daughters. The natural reluctance of the aristocracy to mix with commoners, even wealthy ones, was often overcome by the prospect of recouping lost fortunes. The middle class was not as submissive as formerly to the Church and no longer regarded either nobles or clergy as superior beings. There is some significance, perhaps, in the fact that religious heresies often began and spread along trade routes. The growing sense of self-importance among this class is shown by the literature in which they tended to ridicule the ideals and pretensions of the upper classes.

Freed from the manorial patterns of economic activity and from fear of the Church's strictures on trade, the middle class turned to developing more efficient means of promoting commerce and industry. Expanding trade required an economy based on money rather than barter. Fortunately, there were many places in Europe where the ores of precious metals could be mined, even if in limited quantities. Furthermore, with the Crusades gold, silver, and precious stones began to move into Europe. By the end of the thirteenth century silver coins were widely circulated. In 1252 the city of Florence began to issue the gold florin, and soon other states followed her example. From that time on, Europe had available for use an increasing stock of specie.

Equally important in promoting capitalistic enterprise was the rise of banking. Money-lending at interest was, as we have seen, contrary to the teachings of the Church. For this reason the earliest professional money-lenders were Jews and Arabs, whose non-Christian status conveniently exempted them from the canon law. By the end of the twelfth century, however, the increasing demand for loans enticed many Christians into the profitable business of extending money for a price. Money-changers at fairs frequently served as custodians for specie, and as they accumulated surplus funds they began to lend them at interest. Out of these circumstances and as early as the thirteenth century rose the business of banking. Italian bankers, particularly the Lombards, first made a reputation for themselves; many older European cities today have a Lombard street. In many instances banking ran in families. The Medici family of Florence began as merchants and eventually became bankers (the three balls of the modern pawnbroker's sign were copied from the business device of this family) and prospered to such an extent that for sixty years during the fifteenth century they were the political as well as the economic rulers of the city, helping to make it the financial center of Europe. They had branches in more than a dozen of Europe's leading cities.

Bankers made loans to individuals and invested some of

New techniques

rise out of money lending

their funds in businesses, but of equal importance were the services they rendered to medieval monarchs and the Church. Kings always needed money to fight wars and finance their other projects. The Church needed assistance in collecting and transporting the enormous funds which poured into the papal treasury. The size of their demand for these services was such that it greatly stimulated the development of banking. However, the patronage of the state was not without its risks. Monarchs often repudiated their debts and sometimes bankrupted banking firms. This helped to keep interest rates high, so high in fact that in Italy the Franciscans established pawnshops to rescue the poorer classes from the clutches of the loan-shark.

The expansion of capitalism would not have been possible without the introduction of credit instruments which simplified business transactions and reduced their dependence on specie. The many risks associated with the physical transfer of gold or silver coins over a large area were overcome with the use of bills of exchange, which made their appearance in Italy during the twelfth century. These were simply written agreements by which one party promised to pay a debt with a specified sum of money in a specified currency, on a date which would allow ample time to make arrangements with someone who would have the sum available at the place agreed upon. A further development of this practice in the fourteenth century was the draft, the forerunner of the modern bank check, by which a debtor was directed to pay to a third party a specified sum of money.

Another device which illustrates especially the element of rationality in capitalism was double-entry bookkeeping. At the very end of the Middle Ages (1494) an Italian, Lucas Pacioli, wrote a treatise in which he popularized this new method of determining quickly the assets and liabilities of a business and whether or not it had enjoyed a profit during a stated period of time. This is fundamentally the system of bookkeeping in use today.

urgency
The exigencies of trade required the formation of new types of business organization. In the beginning of this era business was largely an individual enterprise, whether that of the merchant or craftsman. As business became more complex and extended over greater areas, the partnership came into general use in large undertakings. This often brought together members of the same family who wished to pool their money and skills to best advantage. In the trading company, late medieval Italy produced another innovation which was to be of significance to the modern world. These companies resembled the corporation in that they sold stock to the public. (Yet they did not have the same status in law as that enjoyed by the corporation today. For example, since the principle of limited liability was not then generally accepted, each shareholder could be held responsible for the debts of the company.)

With its emphasis on individualism and competition, capitalism was incompatible with the medieval guild system. Many

*Bills of exchange, etc. double-entry bookkeeping.
Partnership, shares, stock.*

equality of all men.

entrepreneurs considered the minute regulations and egalitarian ideals of the guilds too rigid for their purposes. Some of them avoided the towns that were guild-dominated and introduced the so-called domestic or putting-out system. They passed out raw materials to the agricultural population in their village homes for processing. The workers could perform their tasks, perhaps with the assistance of their families, free of the close supervision of the guild and in conjunction with the cultivation of small plots of land. This system appeared in northern Italy and Flanders in the thirteenth century and was most frequently used in the processing of textiles. It represents the beginning of industrial capitalism on a very small scale. In a sense this domestic system was the factory system without the factory. The merchant capitalist bought the raw materials, perhaps supplied whatever equipment was required, and then disposed of the finished product. His labor force was not gathered together in one place, where it could be disciplined and regulated.

Although in 1500 capitalism was still in the early stages of its development, there had already appeared a problem which has recurred in Western society ever since. In 1512 a German imperial decree was issued against the practice of monopolizing supplies, arbitrary price fixing, and discriminatory selling. This decree was in response to the complaints of small merchants that they were being squeezed out by their larger competitors. It was soon obvious that this decree was not being enforced. An imperial report issued in 1522 blasted monopolies as "not only a violation of the laws... [but] also an offense against God." This report posed three questions for consideration: "Do the large trading companies injure the common good and the imperial interests and should they therefore be abolished? Should all such companies be abolished or merely put under public control? What methods should be used to achieve the desired end?"

Taking cognizance of these complaints, the wealthier merchants of Augsburg replied, defending business consolidation and the methods of large-scale operations in arguments hardly improved upon to our own day. In answer to the first question, they observed that trade benefited everybody and that, if trade is good, then the more trade the better. The wealth and prosperity of Venice and Portugal, they claimed, had made happy the people of those states. Large companies attracted merchants and artisans to a community and provided financial reserves beyond the capabilities of the "common merchants." Arguing against the abolition or public control of the large firms, the defenders asserted that any restriction would be harmful since it would discourage enterprise, limit opportunity to earn from investments (thus taking away the "livelihood of widows, orphans and other sufferers"), and prevent the richer merchants from extending loans and credit to their less competent and less fortunate fellows. They denied the existence of any substantive evils and attributed the agitation against them to prejudice and ignorance.

The spirit of early capitalism was personified in the career

of Jacob Fugger (1459-1525), called the Rich, whose wealth or political influence was probably unmatched by any other private individual of his day. The Fugger family had settled at Augsburg, in southern Germany, in the late fourteenth century. Beginning as linen weavers, they extended their interests, first to trading in various textiles, then to spices, and still later to mining. As they accumulated wealth they became bankers, advancing money and performing other services for popes and emperors. In time they succeeded the Medici as Europe's most famous bankers. They had already attained such prominence by 1452 that Jacob Fugger's grandfather was granted the right to wear a sword, which was a sign of gentility.

Together with two elder brothers, Jacob inherited the numerous family interests and proceeded to use this wealth to gain more wealth. He was the outstanding representative of his generation of Fuggers and in him are exemplified the capitalistic ideas of acquisition, competition, and rationality. Although there are many evidences of his sincere devotion to the Church, his actions indicate clearly that he did not consider himself bound by the medieval principles underlying the concepts of just price and usury, to which the Church still adhered. Whether or not he ever actually said that he wanted to make a profit as long as he lived, he behaved as though the profit motive were the dominant one in his life. Nor was he willing to submit to a set of noncompetitive regulations such as was characteristic of the medieval guild. Finally, having studied bookkeeping in Italy after giving up his original intention of a career in the Church, Jacob Fugger employed this and other rational practices in managing his many and varied interests.

By the late fifteenth century most Fugger energies were devoted to mining and banking. They provided banking services for the German imperial family, the Hapsburgs, in return for which they received many privileges. In 1515, they financed the expenses entailed by the double marriage of the emperor's grandchildren to members of the Hungarian royal house. In 1519 Jacob Fugger rendered invaluable assistance in securing the emperorship for Charles V. The imperial throne was sought by Charles of Hapsburg and King Francis I of France. Both candidates employed bribery on a lavish scale. The French king lacked the tremendous financial resources of the Augsburg banker and he was no Hapsburg; the election went against him. Early in 1523, Fugger wrote one of a number of dunning letters to Charles, who had not proved eager to repay his debt. This letter indicates the writer's estimation of his contribution to Charles' election and offers us a commentary on the power which Fugger's wealth carried with it, a power which he never exercised to the fullest extent:

His Most Serene, All-Powerful Roman Emperor
and Most Gracious Lord

Your Royal Majesty is undoubtedly well aware of the extent to which I and my nephews have always been inclined to serve the House of Austria, and in all submissiveness

*Fugger wanted this debt paid before giving any more money to the king
new wealth of bourgeoisie*

to promote its welfare and its rise. For that reason, we co-operated with the former Emperor Maximilian, Your Imperial Majesty's fore-father, and, in loyal subjection to His Majesty, to secure the Imperial Crown for Your Imperial Majesty, pledged ourselves to several princes, who placed their confidence and trust in me as perhaps in no one else. We also, when Your Imperial Majesty's appointed delegates were treating for the completion of the above-mentioned undertaking, furnished a considerable sum of money which was secured, not from me and my nephews alone, but from some of my good friends at heavy cost, so that the excellent nobles achieved success to the great honor and well-being of Your Imperial Majesty.

It is also well known that Your Majesty without me might not have acquired the Imperial Crown, as I can attest with the written statement of all the delegates of Your Imperial Majesty. And in all this I have looked not to my own profit. For if I had withdrawn my support from the House of Austria and transferred it to France, I should have won large profit and much money, which were at that time offered to me. But what disadvantage would have risen thereby for the House of Austria, your Imperial Majesty with your deep comprehension may well conceive.

Taking all this into consideration, my respectful request to your Imperial Majesty is that you will graciously recognize my faithful, humble service, dedicated to the greater well-being of Your Imperial Majesty, and that you will order that the money which I have paid out, together with the interest upon it, shall be reckoned and paid, without further delay. In order to deserve that from Your Imperial Majesty I pledge myself to be faithful in all humility, and I hereby commend myself as faithful at all times to Your Imperial Majesty.

Your Imperial Majesty's most humble servant
JACOB FUGGER *
