Mercantilism, Risk, and Portable Capital: Inventing the Newly Rich

Week 11 Lecture 2

19 November 2004

OUTLINE:
I. Mathematics and rationalization: The Quest for Efficiency
II. “Re-investing” the world with Value
III. Private Property and Consumption
IV. What is a thing worth? (M.S.R.P. = ???)

I. Mathematics and efficiency
A legacy of Mathematics: Economic rationality and efficiency

“Newly Thinkable” values:
Body as machine; clockmaker cosmos; Labor = Property; Rationality; Efficiency; Calculation; invention of race as principle of identity/de-humanize

Cf: Galileo - math/numeracy in the new clinic/laundry

“Maximizing Profit”
Essential ideas for rise of economic view of human being:
1) Human being as machine --- division of labor
2) Cosmos as mechanical clock --- immutable laws of competition, market, Invisible Hand --- The Divine Clockmaker

ABSOLUTELY KEY IDEA:
II. Re-Investing the World With Value

Work is GOOD!

NB: This is a total INVERSION of old values!!

Old Values: Profit, risk, greed are BAD!
Greed is a cardinal SIN!

"Work" is punishment for Adam's Original Sin

Calvin, Calvin, Calvin!!

Calvin: Work is GOOD. It (our vocation) is a sign of our election

REVIEW: Calvin’s contribution
• GOOD WORK IS A SIGN OF ELECTION
  – Ill works are a sign of damnation
  – Fundamental shift from Luther: "The Xtn will do good works, but apparently good works can be carried out by a non-believer."
  – Calvin: "Good works are testimonies of God dwelling in us."

• GOOD WORKS A REMEDY FOR ANXIETY!
  – I know I’m chosen if I do good works
  – Good works strengthen assurance in the believer that s/he is saved
  – No need for "FAITH ALONE"

REVIEW: Calvin’s contribution
• The Lord fits each one of us to look for our VOCATION ["calling"]
  – a subjective and individual place in the world
• God appoints duties to every person so that "he may not needlessly wander about in life."
• All actions are judged in God’s sight by one’s vocation.

Calvin: Work is GOOD. It (our vocation) is a sign of our election
P.S. NOW we can talk about “class”! It is defined as our relationship to capital

Re-investing the world with meaning:
Virtues: THRIFT, saving parsimony
Important to keep wants low [creates capital]

ARGUMENT: How can you justify private property?
1. State of Nature: God gives us everything in common
2. Yet, I have my own “person” — cf. Descartes: I am sure of I
3. The “labor” of my “person” is mine
4. When I put labor into something, I take it out of the State of Nature
5. I can keep as much as I can use without spoiling

III. Private Property
Locke (again!?): Two Treatises on Government (1690)

For Locke, the job of government is to PROTECT this property.

New Value: Work is Good.
RISK is Good.
Success is a sign of our election.

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WHAT DOESN’T SPOIL?
Gold, silver, money have the value that is the “tacit agreement of men”; note how many times Locke uses the word CONSENT.
NB: Nominalist turn: money/gold/silver have no value in themselves; rather, they have the value [name] agreed upon by “tacit consent”
But how do we acquire “private property”? Meaning, you can loan money to non-Christians, but not to Christians. But Jews can loan money to Christians.

**Deuteronomy**
(15:11) [IThe poor shall never cease out of the land: therefore I command thee, saying, Thou shalt open thine hand wide unto thy brother, to thy poor, and to thy needy in thy land.]

(23:20) [Unto a stranger thou mayest lend upon mercy, but with thy brother thou shalt not lend upon mercy.]

Hitler, *Mein Kampf* --- uses obviously medieval metaphors: Jews as bankers and usurers

Medieval invention of “Purgatory” --- an escape-value --- usurers don’t necessarily have to go to Hell forever… can pay off their mortal sins in Purgatory and others can mediate for them by indulgences and masses.

Pope Pius in 1730s: Maybe Catholics can loan money, too. How about at…4.5%… NB: It was a sin; now it is ok.

Anti-Semitism:
Recall Cantor - blame Jews for the Plague
Project anxieties (Cf. Douglas - purity; Spain 1492)

**Review: MERCANTILISM**
Creation of Trade Companies: Dutch East India Co.; British East India Co.

Consumer goods: from colonies:
- Tobacco
- Indigo
- Coffee
- Chocolate

Mercantilism: the “Columbian Exchange”
- 1. Colonial possessions: markets for exports and suppliers of raw materials
  - Manufacturing forbidden in colonies
  - Commerce to be a monopoly of mother country

Mercantilism [cont’d]
- 2. Large population
  - Supply labor, market, and soldiers
  - In practice, it depended essentially on imported labor from Africa that could be forced to work like machines [avg. lasted 7 years in West Indies]

How Much is Something Worth?

First, Aquinas sets up his opponents’ arguments:

1. It seems that a man may lawfully sell a thing for more than it is worth. For in the exchanges of human life, justice is determined by law. But according to this it is lawful for the buyer and seller to deceive each other (Cod., lib IV, tit. 44 de rescindenda Venititio), and this takes place when the seller sells a thing for more than it is worth, or the buyer pays less than it is worth.

2. Furthermore, that which is common to all men seems to be natural and not sinful. But as Aquinas says (I, III [ch. 33]), the saying of a certain actor who says: buy cheap and sell dear, which seems to be natural and not sinful.

Then Aquinas answers his opponents and draws his own conclusion --- he appeals to the Gospel of Matthew in his deduction:

But opposed to this is the saying in Matthew, viii, 17: All things whatsoever you would that men should do to you, do you also to them. But no man wishes to have a thing sold to him for more than it is worth. Therefore no man should sell a thing to another for more than it is worth.

I answer that it is wholly sinful to practice fraud for the express purpose of selling a thing for more than its true price insomuch as a man deceives his neighbor to his loss. Hence Cicero says (de Offic., III): All deception should therefore be eliminated from contracts: the seller should not procure someone to bid up, nor the buyer someone to bid down the price.

There is such a thing as a FIXED (just) price for an item (what would a nominalist say???)
REVIEW:
Essentialism vs.
“NOMINALISM”

There is no essential connection between a thing and the name (representation / meaning) we give it.
IN OTHER WORDS: names --- and meanings AND PRICES --- are ARBITRARY and CONTINGENT agreements.

Shakespeare: “A rose by any other name would still smell sweet as a rose.”

Locke has justified private property and as much of it as you can use so long as it doesn’t spoil. No intrinsic or essentialist “worth” --- rather, what is mutually consented to.

So the cost of something is equal to the labor and material put into it. But how do we compute the cost of labor?

If the human body is a machine… couldn’t one calculate the labor it performs in some mathematical fashion??

Marx: have you turned a human being [labor] into just another commodity? [something to be exchanged with money]

• We barter - not out of benevolence - but out of self-interest
• Since each exchanges their surplus labor for the produce of others’ labor, we are all merchants in a commercial society.

“Real [natural] price” = price in labor; exchange of labor
“Nominal [market] price” = price in capital [value consented to]

Note how this radically changes Thomas Aquinas: what is a thing “worth”? What is a “just price”?

These “essentialist” questions don’t make sense in this system.

Adam Smith, The Wealth of Nations (1776)
• NB: Adam Smith INVENTS the word “Mercantilism” in order to talk about what he is against. He is rather arguing for a laissez-faire capitalist Liberalism — (“laissez-faire” = “allow to do”)

• Smith’s capitalist Liberalism: unregulated individual activity leads to greatest good for all; state should simply preserve order and avoid interference

• Competition, not monopoly.

• Note what he says on the function of Empire [to supply mother country with luxuries — cocoa, coffee, tea, sugar]

• Are American colonies worth the expense?

New Values:

Turn to Atlantic

Work is GOOD

RACE as a biological category

Europeans v. Non-Europeans

The DUTCH Calvinists:

Dutch Revolt: 1572-1648

Calvinists discontent with Charles V (Spain) under the Holy Roman Empire Achieve de facto independence in 1583

Spanish truce 1609-1618; re-engage as part of Thirty Years War Recognition Dutch Independence 1648

During revolt, extraordinary economic development

Dutch East India Co. chartered 1605

1572: £9 million in trade goods

1648: £32 million

Great Tulip Crash of 1637
Dutch tulip craze: “To a Dutchman of the Golden Age, the tulip was not a mundane and readily available flower. It was a brilliant newcomer, still bearing something of the allure of the exotic East and obtainable only in strictly limited quantities.”

New Gap classic T: $12.95 Made of: 100% cotton

Banana Republic Basic Crew: $15.50 Made of: 100% cotton
Abercrombie Logo T: $24.50
Made of: 100% cotton
(and a logo)

“Abercrombie No-T
Made of: 100% beefcake
Maybe it’s not about the T?

“Real” price = labor put into making this very valuable t-shirt

“Market” price = value as commodity
[i.e., as interchangeable unit of exchange]

Why do we buy stuff at prices that are highway robbery?

A #1: Because we Are all MARXISTS!
A #2: STATUS

A #3: Because we Live in a world where wealth is distributed unequally.

The Savage Society of Thorstein Veblen

Why do we buy stuff at prices that are highway robbery?

• What stabilizes into order?
  SELF-INTEREST AND COMPETITION turn chaos into order like clockwork.
  --- I look for lowest price. Prices adjust to what the “market” will bear. [supply / demand]

  NB: Wealth of Nations a “Copernican revolution” in conception of human person/morality

  Medieval: greed/avarice deadly sins --- selfishness

  Modern: selfish the passions that make the clockwork universe run smoothly
Classic work --- 1977
Thesis:
Traditional/Biblical: pursuit of material interests condemned as one of seven deadly sins: AVARICE (greed) --- i.e., unethical and immoral
17th-18th cc. transformation: pursuit of material interests eventually --- hidden reasons of God --- work ethically and morally to contain unruary / destructive human desires.

Georg Friedrich Handel,
“All We Like Sheep Have Gone Aastray”

“All we like sheep have gone astray, everyone to his own way…
We have turned,
we have turned,
Everyone to his own way…”

London coffeehouse, 1705

Coffee: symbol of mercantilist world of empire and luxury items [sugar, tobacco]

SUMMARY POINTS:
1. A benevolent Deity: Newton, Locke, Smith
3. Appearances deceive: fixed price vs. market price
   Self-interest appears to be selfish and lead to anarchy
   In reality (for Smith): greatest good for individual leads to the greatest good of all [“Invisible Hand”]
4. Subjective individualism: my good and my desires center
5. “Copernican revolution” in human sentiment:
   Old: self-interest/competition/greed are AVARICE
   New: they are the positive values bringing order out of chaos

Baroque world: a universe run by an omniscient Provident God … who, like a giant Clockmaker, has made “the very best of all possible worlds”

In the coffee houses and salons, a new intellectual world of “Enlightenment” will emerge --- talk about religious tolerance, social contracts and the virtues of liberty and human freedom . . . conversations ironically made possible by an institution of absolutism we have already seen . . .