

## REVIEW ESSAY

**How Capitalism Destroyed Itself: Technology Displaced by Financial Innovation** William Kingston (2020) 192pp., €34.00 paperback, Peter Lang International, Oxford, ISBN 978-1785367731

This second edition of Kingston's *How Capitalism Destroyed Itself* is based on the assumption that during the twentieth century, and especially after the end of World War II, there was a fundamental shift in the focus of Western creative energy from technological innovation to financial innovation. But continuing financial innovation has always been central to the survival and prosperity of capitalism. For example, from the seventeenth century onwards, money-lenders began to diversify into such banking activities as creating, discounting and swapping bills of exchange. Over time, banking played an ever-increasing role in international and national trade, continually innovating to meet the changing needs of property owners – first in the shape of merchant capitalists and subsequently as industrial capitalists.

Nevertheless, it is impossible to understand the development of capitalism properly without at least a brief outline of the origins of its complex history. This is attempted here. For several centuries after the fall of the Roman Empire, there was a growing trade importing such luxuries as spices, silk, ivory, precious stones, dyes, drugs and condiments, brought over land to the West from the East by Arab merchants. In addition, Italian merchants imported a great variety of luxury articles made in artisans' workshops in what is now known as the Middle East.

The Black Death started to sweep through Europe in 1348, eventually killing over a quarter of the population. Outbreaks in the second half of the fourteenth century had profound implications for trade and for social and economic relationships. Wages increased enormously, rents fell and trade contacts and routes were disrupted. The sack of Constantinople by the Turks ended hopes that overland trade routes could be re-established. This violent disruption of long-established trade routes between Europe and the East was significant in inspiring a search for a sea route to the East Indies. The great explorations of the fifteenth and sixteenth centuries by seamen from first Italy, Portugal and Spain and later from England and the Netherlands, had mixed motives, but prominent amongst them was opening up sea trade routes in place of the overland trade routes shut down by the Black Death. Spanish and Portuguese conquests and settlements in the New World and the East resulted largely from royal enterprise, but Dutch and English involvement was more inspired by private enterprise (Routh, 1984, pp.24–9). During the industrial revolution, industrial capitalism, which started towards the end of the eighteenth century, became an engine of mass production. But between various sections of the populations of each country and over time there has been very uneven distribution of economic benefits and disadvantages.

In his preface to the original version of this book, Kingston wrote:

The basic argument of the book is that capitalism depended upon markets which exist only because of governments which make laws of property and enforce them. These laws have the power to 'civilize' self-interest and force it to serve the public good as well as individual objectives. The self-destruction of capitalism resulted from allowing the capture of these laws by interests.

In this second edition, Kingston writes that 'capitalism made the Western world uniquely rich', but fails to mention that most of the great riches in the Western world are, and always have been, enjoyed by a relatively small proportion of its total population.

Tens of thousands of years ago, most people lived as hunter-gatherers. One highly important and difficult set of their economic activities comprised the catching, killing and processing of huge mammoths to provide food. This was a cooperative activity which did not require any ownership of property for its successful completion. The economic inputs needed for nearly every subsequent significant economic activity were also contributed by numerous people working in cooperation. Only very rarely has any one individual had sufficient expertise and skills to make an enormous contribution to a large economic project. But since the industrial revolution, owners of large companies and corporations have often allocated to themselves enormous proportions of the revenues they secure from corporations' economic activities.

The number, variety and complexity of processes and items secured by economic activity now vary widely from the construction of complex buildings to infrastructure projects, such as transport networks or food production and distribution networks.

There is no methodology yet available to make any reliable assessment of the value of any individual contribution to highly complex activities so as to ensure that financial rewards are based on accurate measurement of each individual's contribution. Guy Routh conducted a detailed empirical investigation of the factors which affected the relative pay received by people in numerous occupations over a period of three-quarters of the twentieth century in Great Britain. This revealed no coherent pattern which accorded with any theory yet developed (Routh, 1980, pp.181–220). Nevertheless, Kingston appears to accept uncritically that the huge amounts of money which capitalists who own shares in major corporations generally allocate to themselves as profits represent realistic reflections of their economic contributions and investments in those companies. From the beginnings of industrial capitalism, owners of companies and corporations have supplied capital obtained through various routes including ownership and exploitation of land or slaves, inheritance or remuneration from their companies. But owners of large companies and corporations have never been the people mainly responsible for technological innovation as suggested by Kingston. Innovations are more often contributed now by scientists and technologists employed by these corporations in functions such as research, development and product design.

The return on capital significantly exceeded the growth rate of the economy through much of history until the nineteenth century and it follows logically that inherited wealth grows faster than output and income. People with inherited wealth need save only a portion of their income from capital to see that capital grow more quickly than the economy as a whole. Under such conditions, it is almost inevitable that inherited wealth will dominate wealth amassed from a lifetime's labour by a wide margin, and that the concentration of capital will attain extremely high levels, levels potentially incompatible with the meritocratic values and principles of social justice fundamental to modern democratic societies (Piketty, 2014, pp.26–7).

Piketty considers that the rate of return on capital is likely to exceed significantly the growth rate of the economy in the twenty-first century and that 'the process by which wealth is accumulated [now] contains powerful forces pushing toward ... an extremely high level of inequality'. Piketty relies on carefully collected and analysed statistical data. On this basis, he finds that, in all countries in all periods for which data are available, inequality with respect to capital is always far more concentrated than the distribution of income from labour. The bottom 50% of the labour distribution generally receives over a quarter of labour income – about as much as the top 10%. In contrast, the bottom 50% of the wealth distribution always owns less than 10% of a society's wealth, while the wealthiest 10% own between 50% and 90% (Piketty, 2014, p.244). Krugman (2014) comments, quite reasonably, that Piketty:

makes a powerful case that we're on the way back to 'patrimonial capitalism' in which the commanding heights of the economy are dominated not just by wealth, but also by inherited wealth in which birth matters more than effort and talent.

Kingston accepts that 'Piketty does indeed show how faster growth of return on capital compared with growth in the economy as a whole has led to extreme inequality'. He does not, however, appear

to trust Piketty's extensive data collection and careful analyses, and considers that such divergence between growth rates is not inevitable. Kingston believes that returns to capital are a function of market power, so laws that increase market power on the one hand and relaxation of discipline over the 'creation of money from nothing' on the other cannot fail to bring about growth in inequality. He also claims that laws made by government have the power to 'civilize' self-interest and force it to serve the public good as well as individual objectives: the self-destruction of capitalism results from 'allowing the capture of laws by interests'.

But capitalist interests never needed to capture laws because in effect these laws were securely in their pockets right from the beginnings of industrial capitalism, as a consequence of the extensive and generally successful propaganda many of them undertook in numerous countries to persuade governments to adopt *laissez-faire* policies. Such policies left capitalists generally to do more or less what they wanted to do, regardless of the consequences for people's lives, the land on which they lived or the environment which surrounded them. Polanyi's book, *The Great Transformation* (2001), makes it clear that labour is only one of the activities of human beings, and land is only one aspect of nature: natural resources are given by nature, and human resources are nurtured by families and communities. Labour and land are resources whose treatment as commodities by conventional economists and capitalists obscures the real conditions of their production and exchange. To use Polanyi's term, they are 'fictitious' commodities. Extreme poverty was indeed pervasive in the world before the industrial revolution. But Polanyi points out that the social conditions created by the industrial revolution and its widespread introduction of factory production involved a 'veritable abyss of human degradation'. Large parts of the country 'were rapidly disappearing under the slack and scrap heaps vomiting forth from the satanic mills'. Ordinary people, especially workers (many of whom had moved from rural to urban environments) had been 'dehumanized ... crowded together in new places of desolation in slums in the industrial towns of England'. This was a catastrophe involving 'an avalanche of social dislocation' (Polanyi, 2001, pp.41–2).

Adam Smith's analysis in *The Wealth of Nations* (first published in 1776) could only be based on observation of economies before and during the period when he was writing, economies in which for several centuries most suppliers had provided traditional products made by traditional methods in small quantities using traditional materials. Adam Smith introduced the concept of 'the invisible hand', insisting that 'It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their own interest (Smith, 1910, 1, p.12). Moreover, even if the invisible hand had existed before the industrial revolution, it is difficult to see how, in the twenty-first century, there can still be an 'invisible hand' which ensures that consumers are benefiting adequately from the purchase of heavily promoted factory-produced products, many of which are invented, innovated, developed and designed deliberately to increase the profits of the capitalist companies producing them. Adam Smith also suggested that self-interest combines with the division of labour to promote economic growth (Polanyi, 2001, pp.257–8). But Smith assumed that the division of labour was primarily the consequence of the human 'propensity to truck, barter and exchange one thing for another' (Smith, 1910, 1, pp.5–12). Again, this may have been a reasonable assumption towards the end of the eighteenth century when *The Wealth of Nations* was being written, when the industrial revolution had barely begun and when the number of factories in existence was tiny. Smith could not possibly have been aware of their future economic and social significance.

By the middle of the nineteenth century, however, many industrial workers in England had been forced to live in over-crowded conditions in urban slums so that they and often their children could work in factories. They were paid low wages despite the fact that economic growth was accelerating and industrial profits were rising. Not until the second half of the nineteenth century did wages rise to higher levels than those prevalent during the previous century. Between 1870 and 1914, there was little improvement in workers' wages. In this context, socialist and communist movements developed, arguing that a half century of industrial developments, numerous technological innovations, much hard work and population movements were in vain if the condition of the bulk of the population

was still dreadful. Only towards the end of the nineteenth century was there some improvement in workers' purchasing power (Piketty, 2014, pp.7–10).

*Laissez-faire* was adhered to by most states in the nineteenth century, but public faith in private capitalism was deeply shaken in most countries by the economic crisis of the 1930s (Piketty, 2014, p.136). *Laissez-faire* was supposed to create a self-regulating economic system motivated by individual gain. But this implied a thoroughly distorted concept of life and society based on assumptions that markets were institutions which had arisen naturally in the course of history, and that for people to behave as traders in markets was also natural to human beings (Polanyi, 2001, pp.276–7). Not until 1944 did the publication of *The Great Transformation* make clear that the tendency to barter, upon which Adam Smith relied heavily, has never been common in human beings (Polanyi, 2001, pp.45, 258). The significance of this criticism was later expanded by Guy Routh, who diagnosed Adam Smith as having suffered from 'a curious conflict in beliefs'. While Smith preached that 'only government interference hindered the invisible hand from guiding mankind along the road to plenty', his own (often acute) observations of how the economy actually worked suggest that his fundamental beliefs were false. For example, many of those whom the 'invisible hand' should have forced to compete for the benefit of the public in practice often conspired to fleece the public (Routh, 1989, p.103). Smith's 'curious conflict in beliefs' was continued and amplified by numerous classical and neoclassical economists (Routh, 1989, pp.104–97).

Economic organization changed radically over ever-increasing areas of the world after the industrial revolution in England. In order to make, promote and supply an ever-increasing quantity and variety of new products, companies needed to find ever-increasing amounts of money to pay people to manufacture them, finance the acquisition of factories to make them in and the machinery to make them with, together with transport to carry the products to their customers and publicity to inform people in ever-widening areas that these products were now available. By the end of the eighteenth century, *laissez-faire*, promoted and supported by numerous capitalists and orthodox classical and neoclassical economists, had triumphed in Western Europe and the US. Capitalists now had political power with which to promote their wealth. 'The spiritual blindness which made possible the general acquiescence in the horrors of the early factory system was not a novelty, but the habit of a century' (Tawney, 1938, p.196). By the time of the early factories, it was generally believed that 'a science had been discovered which put the laws governing man's world beyond any doubt' (Polanyi, 2001, pp.106–7). A society which had previously been influenced by Christianity was transformed gradually into a society dominated by the new 'secular religion' of *laissez-faire*. Human solidarity was renounced in the name of the greatest happiness of the greatest number. The new religion was completely materialistic and included faith that all human problems could be solved by the provision of huge quantities of material commodities.

But even in purely material terms, modern capitalism is a notable failure, neglecting basic infrastructural investment in poor countries, in particular investment in provision of clean water, adequate sanitation and electrical connection. It has also failed to supply healthy nutrition to poor people throughout the world. Between 1945 and 1990, many governments of poor countries relied on state-owned monopolies to provide infrastructure. But these organizations made heavy losses, which governments found very difficult to finance. Between 1990 and 1997, there was very rapid growth in privately financed infrastructure projects. Average annual private investment in developing countries' basic infrastructure projects in the 1990s was about US\$60 billion. This was during a period in which private investment in infrastructure projects in developing countries was higher than it has ever been before or since. But after 1997, private investment dropped sharply, mainly as a consequence of the understandable disappointment of private investors with the financial returns they had received from their investments. At the same time, critics of privately financed infrastructure suggested that access to services by poor people had become less affordable. At the beginning of the twenty-first century, about 2 billion people in developing countries did not have an electricity supply or adequate sanitation, and about 1 billion lacked a safe water supply. Since then, there has been no means of finding the necessary resources (Harris, 2003, p.41).



During the last century, the world's agricultural and food system, dominated by capitalism, has increased total food production immensely to cope with very rapid growth in the total world population. But many national systems have been converted to export-oriented agriculture, at the same time as countries have been forced to open their own markets to food imports, including imports dumped on them by US and EU companies at less than the cost of production. As a result, millions of small farmers have had their livelihoods destroyed. Many farms – especially large capitalist ones – use intensive production methods, often focused on the use of monoculture. Increasingly, they dominate agriculture worldwide. Capitalist corporations expel peasants and pastoralists from their land to secure large areas to produce food for export to rich countries or to produce crops to be converted into fuels. These farms require large inputs, such as water, fertilizers and pesticides (McKeon, 2015). The top priority of the capitalist corporations which own these farms is to derive the maximum profit from their operations. The food and drinks produced by intensive manufacturing processes are generally not tasty, not nutritious and not conducive to human health (Blythman, 2015).

Capitalist farming increasingly uses monoculture, intensive methods of farming, mechanized tillage and chemical inputs, such as fertilizers and pesticides, which cause soil erosion and depletion of nutrients in the soil. Biodiversity is diminished by intensive, large-scale production methods which concentrate on a very restricted range of crop varieties. But food for healthy nutrition has not become available for all the world's population. Less than 60% of the world's population consumes an adequate amount and quality of food to maintain health. About 28% of consumers eat too little food and 15% consume too much, which can result in obesity and such chronic conditions as type 2 diabetes and cardiovascular disease. These effects are partly the result of fast food consumption, which is heavily promoted by large capitalist firms, and which has been increasing in many countries (Foresight, 2011, pp.9–10; Schlosser, 2002, pp.241–2). Substantial production of food which makes people obese and unhealthy is a waste of resources: inevitably it also creates excessive global warming, pollution and other environmental damage.

About half of global greenhouse emissions are now created by the industrial food system, which includes agricultural production, land use change and deforestation, as well as processing, transport, packing and retailing. The present capitalist global agriculture and food system is also inefficient in terms of resources used and wasted in feeding consumers. Indeed, there is abundant data demonstrating the need for radical reform. In contrast, traditional farming systems used by peasants and smallholders typically involve greater diversity of crops, year-round vegetation cover, fewer inputs (including energy) and less waste. They are far less damaging to the environment.

There has been rationalization and intensification of farming food from animals as well as in arable agriculture. This has caused extensive air, water and land pollution and environmental degradation. Wet markets in which relatively rich people buy meat from exotic wild animals, and the trade in those animals are only symptoms of the diseases of industrial capitalism, which heats and poisons the atmosphere, land, oceans, seas and rivers, animals and plants. Highly capitalized production of food depends on practices that endanger humanity worldwide by helping to unleash new diseases. Increasingly intensive agriculture involves land grabs into remaining primary forest, and drives deforestation and development, leading to the emergence of pandemic disease. Contact tracing has linked the infections which caused the covid-19 pandemic to the wholesale sea food market in Wuhan, China, where several types of wild animals were sold.

Over millions of years, zoonotic pathogens, such as viruses, have lived on various animals, causing them few problems. Animals and viruses coexist: tropical forests house the largest numbers of all sorts of species – including both pathogens and their animal hosts. But since the 1940s, more than 300 new infectious diseases have occurred, including HIV, Zika, Ebola, Sars, Mers and many new strains of flu. Previously unknown microbes migrate from other animals to human beings in continual 'zoonotic spillovers'. The main causes of this have been habitat destruction – mainly deforestation and capitalist industrialized agriculture – which leads to huge numbers of pigs, cows and chickens raised in concentrated conditions and in close contact with human beings. Pathogens find new hosts when they are excreted by host animals. Most excretions do not have significant

results for new hosts because there are generally strong barriers preventing transmission to a new host. But occasionally these barriers disappear and the parasite finds a new host in which it undergoes multiple genetic modifications which assist it to multiply rapidly.

A 'livestock revolution' started in the US involving billions of animals (pigs, cows and chickens) being confined in colossal facilities which produce billions of animals to be slaughtered and sold as meat. This revolution is now spreading worldwide. Genetic monocultures of domestic animals remove whatever immunity firebreaks may have slowed down pathogen transmission. Many new pathogens previously held in check by long-evolved forest ecologies are being sprung free, threatening the whole world. Huge animal population sizes and densities facilitate transmission, and these crowded conditions depress immune response. High throughput provides a continually renewed supply of susceptible animals, the fuel for the evolution of virulence. So, these facilities are liable to be afflicted with viruses from the wild; for example, from excretions from bats flying over huge pig farms. Previously contained pathogens can spill over into local livestock and human communities. The capitalist corporations running these facilities now externalize the costs of their epidemiologically dangerous operations onto everyone else. As with covid-19, the diseases generated from animals in these facilities are liable to turn into pandemics which spread from the animals themselves to consumers, farmworkers and local environments across the world. Miniscule infectious parasites first reside in animal hosts and then jump into humans. Such a pathogen can be a virus, a fungus, a bacterium or an amoeba (Malm, 2020; Wallace, 2020).

Capitalists influence politics at all levels. They control global food chains and those for non-food agricultural products, as well as markets for inputs, especially seeds. Too many consumers are forced to rely on industrially produced 'cheap foods'. Globalized trade is defended and enforced by many states and multilateral agencies. Threats to production from climate change are intensifying and wreaking havoc on production in many of the world's poorest regions. (Edelman *et al.*, 2014, p.927). In contrast, food sovereignty offers enormous possibilities, drawing on agro-ecological approaches to production, concentrating on local, national and regional markets, and emphasizing access to and control of natural resources by local populations (McKeon, 2015, pp.3–8).

Kingston's book relies throughout on fundamental misunderstandings of how the modern world economy works. Monumental expenditure on advertising and other forms of promotion, much of it inspired by huge multinational corporations, now ensures that the world economy produces enormous quantities of products bought by relatively rich consumers around the world. But the basic needs of billions of poor people for essential products and services, such as clean water, sanitation, electricity and nutritious food, are neglected. From ancient times (at least from the beginnings of agriculture) directions of change and development of economies throughout the world have been driven by people with political power – mainly by men. The industrial revolution brought into existence a new group of people, capitalists, whom the industrial revolution made wealthy. Over time, capitalists gained access to increasing resources, a proportion of which they have always used very successfully to promote the illusion that everybody benefits by allowing capitalists freedom to create prosperity.

On balance, capitalism is now seriously detrimental to the welfare of the human population and most other organisms on the planet. Securing excessive profits for owners of large companies and corporations remains a much higher priority for capitalists than looking after the world's people and the environment. Caring for the billions of animals, insects, plants, fish and other aquatic animals on which human welfare and the welfare of the planet also depend still has a low priority for wealthy capitalists. This contention is in complete contrast to Kingston's contention that capitalism has destroyed itself. Kingston also writes on climate change:

The targets for reducing emission which various countries have set for themselves have little hope of being met, since the people of the world are simply not going to turn their backs on the benefits which the industrial revolution, which was primarily about learning how to use fossil energy has brought them. These targets will only be met by emissions capture, either before fossil fuels are used or after pollutants they contain have been dispersed into the atmosphere

Such comments are interesting, but Kingston's concept of the nature of the climate change problem and the scope of the solutions he favours are both far too narrow. Kingston does indeed discuss some most important issues for the future of the world's huge population and its survival on the planet. Nevertheless, this review has expressed serious reservations about his suggestion that capitalism has destroyed itself.

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