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CAPITALISM

The concept of capitalism was forged during the nineteenth century. The word 'capitalism' seems to have been penned for the first time in 1850 by the French socialist Louis Blanc in his treatise *Organisation du travail*. But the word was in fact seldom used in the nineteenth century. Proudhon used it very little. Marx hardly seems to have known the term, although F. Engels used it, and the German economist Alfred Schäßle used the word *Kapitalismus* as early as 1870 (Braudel 1981). It was only at the turn of the twentieth century that the word 'took off' on the intellectual and political scenes. In fact, it was Werner Sombart who popularized the term, in his 1902 work *Der moderne Kapitalismus*. The word was then incorporated into the Marxist vocabulary.

The idea of 'capitalism' is thus a recent one, even though the phenomenon described by the concept is considered to predate it. F. Braudel considers that its story essentially began in the fifteenth century, but this does not prevent him from making several references to thirteenth-century Italy. Following a familiar pattern, once the concept had been formed based on observation and theorization of the present, previous centuries were re-examined in search of the origins. Since it was Sombart who popularized the term, we shall take his definition as our starting point, before

going back to look at the concept's eventful history.

A definition of capitalism

According to Sombart (2001: 4–5), 'Capitalism designates an economic system significantly characterized by the predominance of capital', an 'economic system' being a concept which 'enables us to classify the fundamental characteristics of economic life of a particular time, to distinguish it from the economic organization of other periods' (p. 5). It is 'a formative conception not derived from empirical observation' which enables economic science 'to arrange its material in systems' (pp. 4–5).

'Capitalism' thus functions as a Weberian **ideal type**, a theoretical construct used to identify relevant elements of the world and analyse them by differentiation from the typical model. It is clearly a concept of economic sociology, since in its description of the economy, the economy is seen primarily as a set of social institutions and relationships.

Indeed Sombart goes on to define an economic system as 'a mode of providing for material wants' comprising three aspects: (1) a mental attitude or spirit; (2) a form of organization; (3) a technique.

In relation to capitalism, these three aspects are described as follows:

1. Mental attitude or spirit

The spirit of capitalism is dominated by three ideas: acquisition, competition and rationality . . . The aim of all economic activity is not referred back to the living person. An abstraction, the stock of material things, occupies the center of the economic stage . . . There are no limits to acquisition, and the system exercises a psychological compulsion to boundless extension.

(Sombart 2001: 6–7)

2. Form of organization

It is a system based upon private initiative and exchange. There is a regular cooperation of two groups of the population, the owners of the means of production and the propertyless workers, all of whom are brought into relation through the market.

(Sombart, quoted by Parsons 1928: 647)

The ‘high capitalism’ period (from 1850 to 1914) is also marked by the autonomous existence of the company.

By the combination of all simultaneous and successive business transactions into a conceptual whole, an independent economic organism is created over and above the individuals who constitute it. This entity appears then as the agent in each of these transactions and leads, as it were, a life of its own, which often exceeds in length that of its human members.

(Sombart 2001: 13)

3. Technique

Capitalist technology must ensure a high degree of productivity . . . The compensation of wage earners, which is limited to the amount needed for subsistence, can, with

increased productivity be produced in a shorter time, and a larger proportion of the total working time remains therefore for the production of profits.

(Sombart 2001: 12)

The various characteristics described above have since been taken up by the sociological tradition that has chosen to discuss capitalism. Authors belonging to this tradition stress certain aspects of the social system: the existence of an economic process oriented towards unlimited accumulation of capital, the importance of the firm as an agent of the system, private ownership of production resources, ‘free’ wage labour, free enterprise and competition, involvement of science in the process and increasing rationalization of economic activity.

The emergence of the notion of capitalism

The word ‘capitalism’ is much more recent than the root word ‘capital’ on which it has been constructed. ‘Capital’ was used in an economic sense in Italy in a Florentine accounting ledger dating from 1211. The term then appears to have spread from Italy throughout Europe with the expansion of Italian commerce and banking. From the late eighteenth century, the emerging discipline of economics took the word ‘capital’ and gave it new acceptations. Thus, the birth of the term ‘capitalism’ would not have been possible without the prior birth of economic thinking that had given theoretical value to the term of ‘capital’, already part of the language of commerce and banking. The question is what need of thought was met by the conceptual creation of the idea of capitalism.

After the double revolution (the industrial revolution and the French revolution), the rising importance in the nineteenth century of characteristics indicated by the idea of capitalism made it an obvious area

for study by the emerging discipline of sociology. At the time the two revolutions were considered cataclysms, although today there is a tendency to bury their identity in analyses of long-term developments. A new world had been born where discontinuity was more striking than continuity, and nineteenth-century thinkers set out to understand this major transformation from the point of view of various moral judgements. The idea of 'capitalism' arose from thinking inspired by a critical assessment of the new society, concerned primarily with new economic inequalities and the poverty of the working class (other critical assessments sensitive to other aspects of the new society also developed over the same period but are not relevant here).

Being a critical concept, connected to the heritage of the socialist writers which made it a deeply divisive concept, the term 'capitalism' was studiously avoided by some in the sociological tradition (Raymond Aron, for instance, preferred to talk about the 'industrial society'). In fact it was only fairly recently, and mainly in the United States, that the term 'capitalism' came to carry positive connotations and appeared in pro-capitalist work, a typical example being the free-market economist Milton Friedman's book *Capitalism and Freedom* (1962). The success of socialist ideas spread by the labour movement, so warmly welcomed in the Soviet Union, stimulated thinking and comparison of the advantages and disadvantages of the two systems (for example by Schumpeter in *Capitalism, Socialism and Democracy* (1942)). Following a classic dynamic in the history of ideas, criticism led to defence and justification. The pro-capitalist discourses of the twentieth century are above all a response to the same period's anti-capitalist discourses.

The significance of Marx's analyses

Although Marx scarcely used the term 'capitalism', tending instead to use 'capital-

ist system' or 'capitalist production', it was Marx who, as Sombart says, 'virtually discovered the phenomenon'. Analyses of capitalism thus are all developed from, and must position themselves in relation to, Marxian theory. What are the characteristics of capitalism according to Marx?

The first important aspect is the M–C–M' formula to describe accumulation of capital. Capital is any money thrown into the sphere of circulation for the purpose of being recovered with a surplus, and this cycle is seen as endless. This limitless accumulation, found at the heart of Sombart's spirit of capitalism, is also central to Marx's definition, but for Marx it is first and foremost a material process, while for Sombart it is a way of viewing the world and giving purpose to one's actions (even though there would no longer be any need for a spirit once businesses have become autonomous and turned into 'material monsters', as the logic of the system would be imposed on all). The capitalist is forever insatiably throwing new capital into circulation, with the aim of increasing the abstract wealth formed by circulating capital. This places him in opposition to the miser, who accumulates a stock of money by removing it from circulation.

The second key aspect of Marxian theory is his theory of exploitation, which in his opinion explains the origin of the increase in value between M and M' that is the purpose of the capitalist process. There can only be capital if there is a surplus value. Marx found the origins of it in the consumption by the capitalist of a specific merchandise – labour – that by nature creates value when consumed. The surplus value that is the hidden origin of capitalist profit lies in the fact that the wage paid to workers is lower than the value they contribute to productions, which is pocketed by the capitalist when he puts new products on the market. And so for money to be transformed into capital, the existence of a wage-earning class is necessary for the

capitalist to extract the surplus value that justifies his activities. A class conflict between the proletariat and the capitalists, inherent to the capitalist system, is born out of the wage relationship and tends to become exacerbated over time, producing the historical dynamics.

Responses to Marx and new ways

Marx's theory of exploitation has been heavily criticized, with analysts pointing out that while profits could come from payment of insufficient wages to workers, they could also have other origins that Marx refused to see. The most virulent critics on this question were the economists, who finally rejected the notion of labour value the Marxian system is built on. Marx's various predictions concerning the eventual condemnation of the capitalist system have also been re-examined many times, since history has so far failed to vindicate him.

Marx thought that he could establish laws for economics as precise as laws for the natural sciences; he also thought that sociocultural and political factors belonged to the superstructure, while historical movement is mainly produced by deeper structural determinations relating to economic factors, the main one being the wage relationship, and therefore the class struggle. These are the points that Sombart and Weber's economic sociology was to criticize, leaving criticism of labour value theory and the thorny question of justification of profit to the economists.

Unlike Marx, Sombart gives priority in his analyses to the role of the spirit of capitalism rather than to the role of the class struggle in describing the historical process. In Sombart's own words: 'It is a fundamental contention of this work that at different times different attitudes toward economic life have prevailed and that it is the spirit which has created a suitable form for itself and has thus created economic

organization' (*Der moderne Kapitalismus*, quoted by Parsons 1928: 644). Its original aim was to complete the Marxian perspective by adding a socio-psychological and sociocultural dimension to the analysis.

This dimension was to be taken up by Max Weber in his famous essay *The Protestant Ethic and the Spirit of Capitalism* (1904/1920). As he explains,

the question of the motive forces in the expansion of modern capitalism is not in the first instance a question of the origin of the capital sums [as Marx thought] which were available for capitalistic uses, but, above all, of the development of the spirit of capitalism. Where it appears and is able to work itself out, it produces its own capital and monetary supplies as the means to its end, but the reverse is not true.

(Weber, quoted by Swedberg
1999: 67)

But Weber never intended 'to replace a one-sided "materialist" with an equally one-sided "spiritualist" causal account of culture and history. Both are equally possible' (Weber, quoted by Löwith 1982: 103). Weber left these issues for the analysis of empirical materials, refusing to take sides in any generalization.

The major distinctive feature of Max Weber's thinking on capitalism is that he places it in the much broader history of the modern West, which for him is characterized by a process of increasing rationalization that applies to a sphere wider than production and exchange. Encompassing the whole of western existence, this process can be seen at work in the arts, the sciences, and law or economic and social affairs. Weber was in fact only interested in what he called the 'modern rational' form of capitalism. The less openly politically committed nature of Weber's work (he methodologically seeks to separate the scientific from the political in his life), his own political choices and his very broad theoretical

perspective have all contributed to make him a typical representative of the bourgeois sociology held in such contempt by Marxists. All the same, it cannot be said of Weber that he did not in his way cast a scathing critical eye over capitalist modernity.

In Weber's opinion, rationalization, initially a force for progress vital in liberating people from traditional ways of life, ended up as a stronger, longer-lasting source of tyranny. Weber endeavours to show that what was gradually emerging from the rationalization process was something deeply irrational. For example, while earning money in order to live is a rational, intelligible activity, the rational capitalist activity of insatiably seeking profit for profit's sake is perfectly irrational.

This reversal marks the whole of modern civilization, whose arrangements, institutions and activities are so 'rationalized' that whereas humanity once established itself within them, now it is they which enclose and determine humanity like an 'iron cage'. Human conduct, from which these institutions originally arose, must now in turn adapt to its own creation which has escaped the control of its creator.

(Löwith 1982: 48)

The variety of economic systems

The idea of capitalism was immediately associated with that of the existence of a variety of possible economic systems. Capitalism was first considered in opposition to other very different systems, whether they were its historical predecessors (slave economy or the feudalism in the classic Marxian analysis), or alternatives in the political debate (socialism).

Also from the outset, the idea was put forward that capitalism could take different forms in history, and that there was thus a historical variety of different capitalisms. The German historical school in economics

played a vital role in this (see **historical school**). This school was to produce a theory of stages, identifying various periods and their related economic systems. This was at the origin of the idea of capitalism as an epoch of history, but also of the idea that there were separate identifiable periods within capitalism itself. In keeping with this tradition, Sombart, in *Der Moderne Kapitalismus* (1916–28), identified three stages in the development of capitalism: early capitalism (from 1200 to 1750), high capitalism (from 1750 to 1914) and late capitalism (since 1914).

Other types of division have been proposed since, for example by I. Wallerstein in his work *The Modern World System* (1974). The World System is focused around central regions surrounded by various spaces defined in hierarchical order (core, semi-periphery, periphery, external) and linked by an international division of labour. The development of the modern world economy lasted centuries, during which time different regions changed their relative position within the system (see **world-systems approach to economic sociology**).

For the most recent period in the history of capitalism, an approach concentrating mainly on economic transformation factors is the **régulation school**, which is at the centre of a debate on Fordism as a new model for accumulation following the Second World War, and its apparent crisis point in the 1970s before its eventual evolution into post-Fordism. Taking an approach closer to the tradition of Sombart and Weber, Boltanski and Chiapello (2005) have proposed a system of phases based on changes in the spirit of capitalism, i.e. the normative systems accompanying capitalism. They identify three successive spirits of capitalism covering the twentieth century, the second of which corresponds approximately to the Fordist period.

The fact that several capitalisms exist, not in an orderly history but simultaneously in

different countries, is an idea that has attracted attention mostly since the 1990s (see **capitalism, varieties of**). This interest was largely stimulated by Reagan and Thatcher's conservative revolutions in the USA and the UK, which exacerbated the differences between continental European capitalism and Anglo-American capitalism, but also by the fall of the Soviet empire. Today, it is clear that competition between economic systems concerns different capitalist systems. This field of research uses the term 'capitalism' in a much more axiologically neutral way, since judgement now concerns its variant forms rather than its own order.

See also: accounting, sociology of; class; economic sociology; political economy.

References and further reading

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EVE CHIAPELLO

CAPITALISM, VARIETIES OF

The term 'Varieties of Capitalism' (VoC) refers to the research field that compares institutional forms of modern capitalism. The scope of this subfield of comparative **political economy** can be defined in two different ways, one encompassing both diachronic and synchronic perspectives, the other concerning only a particular research field about sectoral, regional and national forms of capitalism.

In the broad sense, the VoC approach studies origins, structures and functions of capitalist institutions, comparing national forms and, in particular, distinguishing between different phases of capitalism. Since the 1920s, political economists have discussed the transformation of capitalism into a more planned and organized, and therefore market-restricting, system. The behaviour of firms was thus increasingly determined by non-market institutions, and firms' microeconomic rationality was more and more supplemented by societal, 'post-capitalist' perspectives. In the American context, such debates followed upon theories of managerialism, developed in the 1940s by scholars like Berle and Means and Burnham (see **managerial revolution**). In the 1960s and beyond, Galbraith, for example, argued that capitalism was no longer driven by competition and pecuniary reward. Rather, firms were governed by the 'techno structure', which was constituted by a managerial elite that aimed at economic planning, scientific business management and the application of sophisticated technology as an end in itself. In Germany, theoretical concepts about the emergence of a new institutional form of capitalism were often advanced by scholars with Marxist or Social Democratic backgrounds. Examples from the 1920s to the 1940s are Hilferding's 'organized capitalism', **Sombart's** 'modern capitalism' and Pollock's 'state capitalism'.