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Entry "Capitalism"

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Capitalism has been used, since the early 20th century, as a concept which captures the structure and dynamic of a particular historical formation of economy and society the beginnings of which first emerged, since the late middle ages, in southern and later in the north western parts of Europe and which has since then been spreading to virtually all parts of the globe. Antonyms to "capitalism" include subsistence economy, feudalism, socialism, and slave economy. "Third World" developing societies may contain insular capitalist patterns in their economy without thereby becoming capitalist *societies*. Comparative social scientists and historians have distinguished a great number of stages, types, qualifiers, and variants under the broad umbrella concept of capitalism, such as agrarian, commercial, industrial, financial capitalism; state capitalism, coordinated capitalism; Nordic, Anglo-Saxon, East Asian, or "Rhinish" capitalism.

Capitalism is used by most authors who employ the concept in a holistic way which comprises not just an economic system but also a type of social structure, political institutions, and specific cultural norms and values. The complementarity, goodness of "fit" and range of variation that exists between these realms - essentially the realms of capitalist *interests*, *institutions*, and *ideas* that together make up capitalism - has been the focus of social science analysis since the pioneering works, around the turn of the 19th century, by Max Weber and Werner Sombart (Marx almost never used the term "capitalism") to contemporary research on comparative capitalism. (Hall and Soskice 2001) On the European continent, the usage of "capitalism", in both political and academic contexts, has almost always critical overtones. Authors who wish to avoid such connotation use "social market economy", "industrial society", or simply "modern" society instead, thereby occasionally losing sight of the *problèmatiques* and insights of those classical authors of social science.

There are six defining features of capitalism: *markets*, *property rights*, the role of private *firms*, politico-economic *institutions*, capitalist patterns of the cognitive and normative *culture* (Weber's "spirit" of capitalism); lastly, there are reflexive dynamics of *critique* that are specific to capitalist societies. Theorists differ as to the emphasis they attach to each of these components of capitalism. The study of capitalism is a highly interdisciplinary field of investigation to which historians, economists, sociologists, lawyers, political scientists, and philosophers have significantly contributed.

(1) Capitalist societies are based on economic systems in which most goods and services are bought and sold in *markets* for a monetary *price*, thus making them *commodities*. The commodification of goods makes for the *contingency* of economic transactions, meaning that the parameters of these transactions - who buys from and sells to whom what commodity at which point in time and at what price - becomes a matter of continuous *choice* and an ongoing *competitive* recombination of social relations. Market transactions are governed by a regime of social norms and legal rules (*law of contract*) which is enforced by a neutral state-operated court system and

which specifies the mutual rights and liabilities of agents entering into economic transactions. These norms and rules are designed to rule out the use of openly predatory practices such as individual or organized violence, fraud, theft, deception, conspiracy to deny potential suppliers market access, to some extent even practices of cartelization and monopolization, and bribes as "unfair" means employed in the pursuit of economic gain. To the (historically highly uneven) extent that such rules are fully implemented, we can speak of a *civilizing* function of market competition, ideally leaving only prices and qualities/novelty of goods as action parameters of competitors. Yet as prices are "given" in any (nearly) perfect (or "atomistic") market, suppliers are under strong incentives to *innovate* both *products* and (technical,, organizational) production *processes*. Markets determine *prices* in response to changes of the volume of supply of and demand for specific goods and services. The prominent role of choice, contingency, and civility in economic interaction has lead theorists to equate capitalism with individual *freedom*. (Friedman 1962) Markets make people "free to choose".

Yet a defining feature of *capitalist* market societies consists in the fact that not just goods and services which are *manufactured for the purpose of being sold*, but also the "factors of production" which are employed in the process of manufacturing are subject to market exchange under capitalism. In spite of the fact that these factors - natural resources, human labor power, and money - have not been "produced" (and certainly not produced with the intention of being marketed), they are still subsumed under the commodity form. This "commodification of non-commodities" has been scandalized, both in the Marxist tradition and famously by Karl Polanyi (1944), as the *core contradiction* of capitalism, meaning a source of conflict and instability that constantly calls for (interventionist, reformist, revolutionary, authoritarian, military etc.) remedies and institutional safeguards to be installed by holders of political power. The commodification of money through speculative investments with their potentially disastrous effects on financial markets, the commodification of natural resources with their associated environmental damages, and the commodification of human labor power with its distributional and other adverse impacts can all be cited as contemporary instances of this key "mistake" of commodifying what by their very nature are non-commodities, or "fictitious" commodities. Thus one defining feature of capitalist society and its dynamics is the existence of a *labor market* in which the capacity of workers to perform productive services is being traded under *labor contracts*.

Such commodification of non-commodities has provided for enormous gains of efficiency, growth, and prosperity that have accompanied the history of capitalism. While under capitalism the commodity form is *extended* to non-commodities, it is on the other hand *restricted* (compared to pre-capitalist monetized exchange relations) to items of "economic" value -- excluding, that is, items such as positions in the state administration, court decisions, academic titles, marriage licenses, or, most importantly and since the abolition of slavery, human beings themselves who are instead governed by the principle of inalienable "self-ownership" (John Locke).

By exposing labor to market contingency under the regulatory regime of the labor contract, capitalism inserts workers into the organizational framework of productive organizations ("firms") which, due to the division of labor, organizational control mechanisms, and efficiency-enhancing investment goods, allow labor power to be utilized much more productively than was the case in pre-capitalist forms of production. Yet the reverse side of this medal of growth and prosperity consists in the fact of commodification of (nominally "free") contractual labor and the distributional patterns as well as contingencies following from it. Not only does the individual employer exercise *power* (as authorized by the labor contract) over the employees within in firm, but the collectivity of all employers exercises "structural" or *class power* over the labor force as a whole. The latter arises from the fact that labor is tied to capital in a relationship of *asymmetrical dependency*. In the typical case, workers depend more urgently, because wages are normally their only source of subsistence, on *being* employed than employers depend on *employing* labor, or at least on employing it "here, now, and continuously". One important cause of this asymmetry resides in the fact that employers are in control of (as well as incentivized through competition to put to use) productivity-enhancing and hence labor-saving technical and locational change, whereas workers, by themselves, can do little (if anything) to enhance the "welfare yield" of the wages they earn and spend. The game that has been set up by the fundamental capitalist institutions of the labor market and the labor contract can thus be looked upon as a "wealth maximizing game" and, at the same time, a "poverty-and-insecurity generating game".

After the end of the "golden age" of stable growth and full employment - an age which in the OECD world coincided roughly with the third quarter of the 20th century - one of the core problem of open ("globalized") advanced capitalist economies (cf. Standing 2009) has become the chronic imbalance between the supply of and demand for labor. This core problem translates into the divisive dilemma of workers of either yielding "flexibly" to the pressures to become - and stay! - "*employable*" (which they can rarely accomplish through their own means and efforts alone) or to face the prospect of socio-economic insecurity, precariousness, unemployment, and exclusion.

(2) Participants in markets enjoy state-enforced *property rights*. Importantly, such property rights do not imply that every member of the legal community does have a *right to own* some share in the total of the material resources available in the community (as it was envisaged by 18th century revolutionary writers such as Thomas Paine). It rather means that those members of the community *who already happen to be in the possession* of units of property are recognized and protected in their ownership status (provided that such property has been acquired in legally permitted ways). Such protection means that the ownership status is safeguarded against the loss of property (e. g., through theft, destruction, confiscation etc., although of course not against losses that may result from unfavorable choices made by owners). The right of property further means that the owner is free (within limits established by regulatory law) to determine the use to which the property is being put as *capital*, as well as to appropriate the gains ("profits") flowing from its use (net of deductions the property-owner must make according to tax laws). One highly consequential aspect of the freedom of owners as constituted by property rights is to use these rights to hire labor, with the further implication that those hired as workers (and due to the terms of remuneration under which they are hired and the absence of potentially productive property of their own) are rendered incapable of acquiring property themselves. In this case, the availability of property rights to some does not just coexist with, but positively *causes* the denial of property rights to others (particularly as the latter typically lack the collateral that they need in order to obtain a commercial bank loan).

(3) If property owners decide to *invest* their monetary resources (which is the only chance they have if they wish to make their property a *durable* asset or even *increase* it through accumulation), this investment will show up (unless it is a purely speculative investment in financial mar-

kets) as *capital* in *firms*. The firm is the key capitalist institutional location where investment (in buildings, machinery, raw materials, etc.) is combined with waged labor for the purpose of producing marketable commodities. The two defining features of the capitalist firm are (a) its distantiation (in space, time, social function, accounting principles) from the *household* and (b) a *hierarchical* structure of command and control (with an *entrepreneur* or a managing board at the top) and a formalized vertical and horizontal division of labor designed to promote the efficiency of the productive process and the realization of its results in markets. In sharp contrast to voluntary and highly contingent market transactions, the ("despotic", as Marx put it) interaction that occurs within firms is based upon the contractual right of some agents to give orders and the duty of others (as enforced by some measure of sanctioning capacity of superiors which ultimately consist in their right to terminate the labor contract) to carry them out. While the degree of "authoritarianism" of the internal regimes of capitalist firms may vary greatly, some measure of authoritative coordination seems indispensible. This is so because, first, the labor contract is (for good reasons in terms of efficiency) essentially an "incomplete" contract with gaps that need to be filled by commands. Moreover, second, because the conflict of interest that is inherent in any asymmetrical contractual relation will make it highly unlikely that those gaps in the contract will reliably be filled by acts of spontaneous cooperation, thus overcoming the "agency problem" that is caused by opportunism. Hence the friction between the (nominally) voluntaristic, egalitarian, freely chosen relationship between firms and their *external* market partners and the authoritarian and hierarchical relations *inside* the firm as a formal organization.

The existence of this relationship of *social power* can be *factually* accounted for in terms of the asymmetry that capital can hire labor, yet labor, in the absence of savings or a collateral, cannot normally hire capital. And it can be *institutionally* accounted for the fact that, once employees enter into the labor contract, they subject themselves to the command structure of the enterprise. Virtually all of the labor market, labor relations, and industrial relations policies that we find in the history of capitalist societies (including the building of institutions for collective bargaining and codetermination) can be seen as ongoing attempts of states, workers, and employers to regulate and (un)balance these two basic kinds of power relationship. They are analytically distinct from a third one: the *political* "exit power" of capital to relocate (or threaten relocation, or threaten shifts to speculative investments in financial markets), to which states and their political elites are vulnerable. For they depend, for virtually all kinds of policies, upon the flow of *tax revenues* much of which result, directly or indirectly, from investment, growth, and employment, all of which are ultimately controlled by decisions of capitalist enterprises.

The aggregate effect of what is going on in firms and labor markets generates and reproduces specifically capitalist patterns of *inequality*, reflecting the differential marketability ("employability") of labor. These patterns pertain to earnings, employment opportunities, income security, wealth, organizational resources, political power, and even life expectancy. (Standing 2009) These inequalities unfold in inter-individual, inter-sectoral, inter-regional, international, and global dimensions. At the bottom of distributional hierarchies, we find people, regions, and even an entire continent (Africa) who are rendered precarious or whom the dynamic of capitalism can afford, as it were, "to do without".

Firms are the institutional location where a specific kind of capitalist *rationality* unfolds. At every point in time, the intellectual technique of rational capital accounting of costs and returns allows a firm to assess its own value and to evaluate alternative courses of action in terms of probable returns to the capital invested. At the same time, there are two sources of irrationality, one at the source and one at the outcome of rational calculation. As to the former, accumulation is seen as originating from a deeply irrational dynamic of entrepreneurial intuition and vision that can neither be taught nor learned - a kind of imaginative "creativity at the top" that guides the innovation of products and processes. As to the latter, the aggregate outcome of the capitalist dynamic triggers social (including environmental and cultural) changes which just "happen" as unintended and unpremeditated outcomes which cannot be attributed to any rational design or calculation. Even in terms of firms' own interest, they can never be certain, given the unpredictability of their environment, that decisions turn out to have been rational in the light of outcomes. This latter irrationality of outcomes is a point at which the dynamics of capitalism and the normative ideals of modernization diverge. If the project of modernity means the effective mastery of society over its collective fate, this is clearly not a virtue in which capitalism, arguably still the "most fateful force of social life" (Max Weber), excels.

(4) Firms do not only interact with external market participants (customers, workers-to-be-hired, other firms as suppliers or buyers) but also, and in ways that are *not* mediated by markets, with an *institutional* environment in which they are "embedded". Sociologists and "institutionalist" economists have explored the vast field of non-commercial interaction that both, firms and employers as well as workers as employees are involved in. These non-commercial relations of capitalist firms, as well as of everyone else participating in markets, are governed by *institutions* and the legal rules, formal procedures and social norms that institutions consist of. The institutional environment of market actors (beginning with private law and its enforcement in courts

and not ending with state-provided investment in infrastructure) is something that they, on the one hand, *depend* upon in order to reach their market objectives; yet on the other hand, the institutional environment is one that market actors try to *actively shape* and transform in ways that best suit their respective interests. They are involved in a reflexive process that may be termed the *production* of the conditions of production (as well as distribution). The politically mediated production of conditions of production applies to the areas of research, development, and technical change, for instance in the areas of communication, transportation, the development of new materials and sources of energy. It also applies to the vast policy areas of infrastructure investment, regulation of markets, trade policy, taxation, labor market and social policy, and macroeconomic steering. At any rate, we would get a seriously deficient and distorted picture if we were to model action in capitalist societies as primarily market action of buying, selling, and investing. Market actors, and exactly so for the sake of succeeding *as* market actors, take an equally strong interest in not just complying with, but in strategically shaping the non-commodified *environment* of commercial interaction in markets.

The relationship between the actors of a capitalist economy and the institutional environment in which they act is a reciprocal one: On the one hand, firms, consumers, owners, and workers could not make a single move without relying on premises such as laws, courts, legislatures, regulatory agencies, police protection, schools, physical infrastructure, systems of taxation and tariffs, social insurance systems, central banks, research and development organizations, and many others, mostly supplied, sponsored and regulated by state agencies and all kinds of private-public hybrids which in recent literatures are referred to as agencies of "governance". Despite capitalism being a global system, the configuration of capitalist economic actors and their institutional environment appears to be still largely shaped by national traditions, path-dependencies, and policy approaches shared by the political and economic elites of nation states. These institutional context conditions are never "given", fixed, or sacrosanct according to a master formula of the "mixed economy", but in constant flux under the impact of hegemonic doctrines of social order (such as "neo-liberalism") as well as strategic efforts of economic actors to alter them in ways that better allow for the exploitation of emerging opportunities. These agents *depend* upon an institutional framework of social order, yet at the same time they are constantly involved in strategic activities designed to *dis*-and *reorganize* it. The capacity to do the latter is derived, in spite of the apparent primacy of political state power over economic exchange, by the fact that modern states, in particular modern liberal democratic states and their stability, depend as much on the reasonably smooth operation and growth performance of the capitalist economy as the agents in the latter depend on the state-provided institutional premises. Again, there is an asymmetrical mutual dependency (in contrast to the notion of a hierarchical primacy of the state over the economy), which is due to the fact that ("capitalist") states, in their turn, depend both on *fiscal resources* and *political support* (with labor market outcomes as one of its important determinants) for the sake of their stability. This dependency on the state upon capital and its profitable investment is all the greater, and the state's vulnerability more significant, the more the state is a *welfare state* (a state, that is, with substantial legal commitments to the provision and maintenance of social security) *and* the more investors enjoy the "exit option" that de-nationalized pattern of trade and investment ("*globalization")* provide.

What agents under capitalism actually do is thus much more than buying and selling in the pursuit of gain, profit, and utility maximization. Beyond that, they act reflexively upon the very institutional context conditions under which they act, revising, as it were, the rules as the game goes on by constantly reframing their "accumulation regimes". (Boyer and Saillard 2002) Firms and their associations are involved in the legal or managerial design and ongoing adjustment of "production regimes" and modes of "corporate governance". Moreover, they form cartels and alliances, make threats and promises, warnings and demands, bargain and negotiate, associate, advertise, influence, lobby, launch campaigns, donate, resist, mobilize, implicitly blackmail political authority by virtue of the fact that some economic agents are "too big to die", complain about state policies and advocate alternative ones, opportunistically evade legal and contractual obligations, strike political deals etc. - all in order to shape, reshape, and occasionally also subvert the institutional context within which the core economic process of capitalism, the competitive pursuit of profits, is going on. (Streeck 2009) The political economy of capitalism is essentially a *political* economy in the sense that it can hardly be conceptualized in terms of a durable institutional equilibrium. To the contrary, rules and their recognition are permanently contested. If the state and its institutions can be said to be devices to generate security of expectations leading to trust and to protect capitalist market society from its own inherent dangers of destabilization, it can also be said that this device is itself not reliably protected from the repercussions of such destabilization. The market as even been compared to a "prison" in which the makers of public policies are incarcerated. (Lindblom 1982) The assumption that capitalism is at all "governable" (as opposed to essentially "anarchic") is, in other words, far from axiomatic. This condition of uncertain institutional embeddedness applies even to the overall political regime type. For while it is true that all liberal democracies contain capitalist economies (in spite of the friction that exists between the two), the reverse is not true: Both historically and in the contemporary world capitalism has coexisted with (and indeed flourished under) various types of non-democratic regimes.

(5) What Max Weber has termed the "*spirit" of capitalism* is a complex and multi-faceted phenomenon that includes cognitive and epistemic as well as motivational and justificatory elements. It has in part motivated the transition from pre-capitalist to capitalist modes of economic life and it is in turn shaped and inculcated by the realities of life under capitalism. It also applies differently to different *types of actors* (such as manual workers, white collar workers, the self-employed, entrepreneurs, managers, consumers etc.) in the capitalist game, as well as to different *stages of its development* and associated "production regimes" (e. g. "Fordist" mass production *vs.* post-Fordist "flexible quality production"; Boyer and Saillard 2002). Central to the core model of capitalist culture is the notion of selfish and "unfraternal" (as Max Weber put is) individuals' pursuit of acquisitive rationality for its own sake. These individuals methodically explore the physical and social world in constant search for opportunities for gain. In doing so, they follow their *interests*, control their own *passions* through self-imposed discipline, and resist the passions of rulers. This pursuit of interest is conceived as *endless* - both in the sense that there is no end or state of satiation to be reached where further efforts become pointless and in the sense that it can (and in fact must!) go on forever, as any standstill spells failure in a competitive environment. The rationality that governs this behavioral dynamic is "formal", "abstract", "self-referential", unendingly and relentlessly expansive in time and space, and boundless: everything we encounter in the world is first of all being framed in terms of costs and returns, risk of loss and opportunity for gain alone. At the same time, the accounting frame of capitalist assessment of costs and returns is too restricted and myopic, i. e. insufficiently intelligent in order to capture long term

and collective negative externalities which therefore tend to be systematically ignored. Weber has claimed an "elective affinity" that exists between the urge to accumulate and Puritan asceticism which abhors *wealth*-to-be-enjoyed and lauds its rather being transformed into *capital*-to-be-invested, with the satisfaction of need just being a by-product of the process. Relentless and often fear-driven patterns of acquisitive search behavior have become common today not just among entrepreneurs and the self-employed, but also a wide range of employees who have been lead to apply entrepreneurial attitudes and values to themselves, such as the values of flexibility and mobility.

But this characterization of capitalist culture and cognitive style captures just one of its facets. Others include patterns of hedonistic consumerism with its mindless short-sightedness which performs the function of creating ever more needs and desires amidst affluence. Still another consists in counter-tendencies to abstract formal rationality the spread of which can be observed in the irrationalities of superstition, magical thinking, and prejudice of "authoritarian" modal personalities; or such tendencies consist in post-modernist and anti-authoritarian counter-cultures which challenge dominant modes of rationality, thus causing "cultural contradictions of capitalism" (Bell 1976). - Whether or not we can speak of specific cultural *prerequisites* (as opposed to formative cultural *consequences*) of capitalism is an issue of considerable interest for social research, given the fact that East Asian capitalism has thrived within the cultural framework of Confucianism and also given the fact that there was hardly any founding generation of a capitalistically "spirited" middle class in some of the now capitalist societies that emerged from state socialism in Central East Europe where capitalism was built "without capitalists". (Eyal, Szelényi & Townsley 1998) As is the case with political institutions, both high culture and popular culture, and both the normative and the cognitive "mental infrastructure" of capitalist societies are constantly (re)negotiated through the joint governance of private actors (such as much of the media industries) and public authorities.

(6) From its historical beginnings on, capitalist market societies have encountered strong endogenous *critiques*. The intellectual and political critique of capitalism and its inherent dynamics comes in two main variants which are often combined by critics. One is based on *empirical* analysis and prediction and focuses on the observable instability of the systems and its built-in self-destructive tendencies; this kind of critical perspective yields *crisis theories* according to which the system will become, sooner or later, *unsustainable*. The other critical perspective is *normative* and highlights the suffering, deprivation, exclusion, sense of meaninglessness, and various kinds of *injustice* that are perceived as concomitant features of capitalist growth and development; in response to this experience of injustice, social conflict, be it in the form of class conflict or otherwise, is both predicted and advocated by critics to overcome capitalism and transform it into a type of society that is both more just (at the level of "social integration") as well as more stable as a viable economic system.

However, the empirical observation of cyclical patterns of crisis that unfold *under* capitalist institutions, as well as the normative focus on injustice, does not provide a robust argument to the effect that we are entitled to anticipate a crisis or conflictual challenge *of* capitalism. This *non sequitur* is widely recognized today as an analytically unwarranted leap of political faith. For just as cyclical crises and recessions set the scene for ever new rounds of accumulation and growth, capitalism can also thrive on at least some versions of its normative critique, thus arguably continually contributing to the system's perpetuation rather than its demise. (Boltanski and Chiapello 2005)

In conclusion, it seems safe to state that the notion of a modern society "after" and "without" capitalism and its key features - a notion that has inspired much of the history of the political left - has largely been rendered obsolete today. This obsolescence is epitomized by the demise of European state socialism in 1989 - 91. Neither the probability nor the desirability of a full-scale historical abolition ("breakdown") of capitalist patterns of socioeconomic organization are widely advocated any longer. Instead, capitalism is seen to be subject to numerous forces of endogenous change, leading to a great deal of variation and institutional diversification of capitalism*s*. The longitudinal notion of a diachronic *sequence* of types of social order has yielded to a "synchronized" perspective, with post- and anticapitalist, "de-commodified" and solidaristic patterns of socio-economic organization now playing a role in ongoing and contingently reversible *modifications* of enduring capitalist core structures and the ongoing recombination of its components. As stated before, it is in the nature of capitalism that it consistently breeds reflexive *critiques* of capitalism. These aim at curbing and holding accountable the various manifestation of the *social power of capital* and proposes to deploy a variety of institutions and policies for its domestication - be it social power over a firm's employees, power at the level of class relations and its distributional consequences, the role of economic (veto) power in the making of public policy, the power of investors to inflict vast negative externalities upon everyone else (and even upon themselves) through economic crises and environmental destruction, and the power of capital to shape and "colonize" the process of cultural reproduction.

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