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What Does Capitalism Mean?

The Emergence of a Controversial Concept

Capitalism is a controversial concept. Many scholars avoid it. To them it seems too polemical, since it emerged as a term of critique and was used that way for decades. The term is defined in different ways, and frequently not defined at all. It encompasses a great deal, and it is hard to delineate. Would it not be better to dispense with the concept and, say, talk about a “market economy”?

On the other hand, there is a long line of serious-minded scholars in the social sciences and cultural studies who have contributed a great deal of substance to the discussion about capitalism. A quarter century after the end of the Cold War, which was also a war of words in which key concepts were weapons, the term has returned to the scholarly discourse with a vengeance. The international financial and debt crisis that started in 2008 has added fuel to the fire of critical interest in capitalism. We are witnessing a new boom in course offerings about the history of capitalism on American college campuses, and the number of books and articles with “capitalism” in the title is on the rise. In Europe, too, the concept is now more newsworthy than it has been in a long while, even if its renewed

topicality is more noticeable among journalists, social scientists, and cultural studies scholars than with economists.¹ But if the term is going to be used, one should be familiar with its history and define it sharply.

The term *capitalism* only gained acceptance in French, German, and English, after some sporadic antecedents, in the second half of the nineteenth century, although *capital* and *capitalist* had already become part of the vernacular in those languages. Let us take German as an example: there the concept of “capital” migrated from the language of merchants (where it was frequently used, at the latest, by the early sixteenth century) into the terminology of the social and economic sciences that were emerging in the seventeenth and eighteenth centuries. Initially the concept meant money (either invested or lent), and then later assets consisting of money, monetary values, commercial paper, commodities, and manufacturing plant, though always “in regard to the profit that it should yield” (1776), instead of being consumed or hoarded.

Since the seventeenth century, “capitalist” stood for the “capital-rich man who has cash monies and great wealth and can live from his interest and rents” (1756). More specifically, those designated as “capitalists” include merchants, bankers, pensioners, and other persons who lend money and thus “broker or deal in capital” (1717). In the meantime, “capitalist” also stood for all those engaged in the acquisition of wealth “if they accumulate the surplus of their labor, their earnings, over and above their required consumption, in order to use the surplus anew toward production and labor” (1813). Starting in the late eighteenth century, moreover, capitalists were increas-

ingly viewed in contrast, and soon in outright opposition, to workers, and as the “class of wage masters (merchant-employers, factory entrepreneurs, and merchants)” who did not live off wages or rents but from profits (1808). Imbuing the concept with connotations of a class society, something already in evidence early in the nineteenth century, intensified in the ensuing decades as public poverty grew, revolutionary tensions erupted in 1848–1849, and industrialization with its factory system and wage labor also caught on in continental Europe, while observers, well into the early nineteenth century, drew their illustrative material above all from England, the country that had pioneered capitalist industrialization.²

Apart from a few early instances that did not really shape linguistic usage, the term *capitalism* initially reflected above all this imbuing of the term with criticism of the class society, a usage that happened just as the term started to catch on in the middle of the nineteenth century, originally in French, then also in German beginning in the 1860s, and somewhat later in England. In 1850 the socialist Louis Blanc criticized capitalism as the “the appropriation of capital by some to the exclusion of others.” In 1851 Pierre Joseph Proudhon condemned land on the Parisian housing market as a “fortress of capitalism” while advocating measures against exorbitant rents and speculation. Then, in 1867, a representative French dictionary cited the term *capitalisme* as a neologism, used “power of capital or of capitalists” to describe it, and referred to Proudhon. In Germany in 1872, the socialist Wilhelm Liebknecht lashed out against the “moloch of capitalism” plying its dreadful trade on the “battlefields of industry.”³

In German, at least, the term rapidly outgrew its original polemical thrust and became more widespread. Although Karl Marx rarely used the noun “capitalism,” in the 1850s and 1860s he wrote profusely and effectively about the “capitalist mode of production.” The conservative economist Johann Karl Rodbertus, who sympathized with state-socialist ideas, asserted in 1869 that “capitalism has become a social system.” In 1870 Albert Schäffle, a liberal-conservative professor of political economy, published his book *Capitalism and Socialism with Special Attention to Forms of Business and Property*. In this book he delved into the conflict between wage labor and capital. He advocated state-sponsored reforms in order to mitigate those conflicts, and he defined capitalism as a national and international “organism” of production under the leadership of “entrepreneurial” capitalists competing for the highest profits. “The Socialists are correct,” he added, “when they declare that the present economy is characterized by the capitalist mode of production,” that is, by the hegemony of “capitalism.” There is a reference to Schäffle in *Meyers Konversations-Lexikon* from 1876, when this German household encyclopedia treated “capitalism” for the first time, though in an entry on “capital.” In 1896 this widely used reference work included a separate entry for “capitalism” with a differentiated argument about what the encyclopedia now described as a “designation for the capitalist production method, as opposed to the socialist or collectivist” one.

In 1902 Werner Sombart’s great work *Modern Capitalism* was published, a book that contributed decisively to mak-

ing the term part of the vernacular. Subsequent to this, there was a rapid expansion of the social science and historical literature that dealt with the theory, history, and present state of capitalism, to a great extent in debate with Sombart. Although Sombart viewed his book as a continuation and completion of Marx's work, in fact its emphasis on the role of entrepreneurs and enterprises, his concept of the "capitalist spirit," and his perspective reaching back into the Italian High Middle Ages went well beyond Marx.⁴

In Great Britain, as early as 1851, the concept was not entirely unknown. But starting in the 1880s, it was reluctantly introduced to a wider public, especially in Fabian circles. John A. Hobson published a book, *The Evolution of Modern Capitalism*, in which he focused on the rise of the factory system. The *Encyclopaedia Britannica* first mentioned the concept in its 1910–1911 edition (still only in its entry on "capital"). The encyclopaedia then carried an entire separate entry on the term in 1922, defining capitalism as "a system in which the means of production were owned by private proprietors" who employed managers and workers for production.⁵

The history of the concept in the United States paralleled that of Great Britain, though there is evidence that the term was known to radical working-class circles before journalists and scholars adopted it. Among American writers, Thorstein Veblen was one of the first to use it in his 1914 book *The Instinct of Workmanship and the State of Industrial Arts*. He followed European authors in stressing that capitalism was much older than industrialization, growing out of the handicraft system, trade, and finance from

the fifteenth and sixteenth centuries. But he emphasized that “its highest development comes with the advanced stages of the machine technology and is manifestly conditioned by the latter.”⁶

Individualized property rights; commodification on markets for goods, labor, land and capital; the price mechanism and competition; investment, capital, and profit; the distinction between power-holding proprietors and dependent propertyless wage workers; tensions between capital and labor; rising inequality; the factory system and industrialized production—these were, in varying combinations, major characteristics of the concept of capitalism as it emerged in the period leading up to World War I. The term was mostly used to denote an economic practice or an economic system, frequently with special attention to its social and cultural consequences.

All in all, then, one may summarize that the concept emerged out of a critical spirit and from a comparative perspective. Usually it was used in order to make observations about one’s own era, which was conceived, in marked contrast to earlier conditions, as new and modern. Or it was used to confront what was then the present status quo with socialism, first as an envisaged idea and then as a movement whose first stirrings could be observed. Only in the light of a sometimes transfigured memory of a different past, or of a better future envisioned as a socialist alternative, did the concept of capitalism emerge, mostly in the context of a critical outlook on the present of that time. Yet at the same time the concept was employed in the service of scholarly analysis. This dual function of the term made it suspicious to some, but all the more interesting to

others. Both functions could, but did not need to, stand in each other's way. This is still the case today.

Three Classics: Marx, Weber, and Schumpeter

In the late nineteenth and early twentieth centuries, numerous intellectuals, social scientists, and cultural studies scholars regarded capitalism as *the* decisive contemporary feature of their era. Numerous historians were then already using the term in order to investigate the history of capitalism in previous centuries when the term did not yet even exist.⁷ Many authors contributed to the broadening of the concept of capitalism from a politically tendentious term into an analytically sophisticated systemic concept. The following pages explore somewhat more comprehensively three thinkers whose now classic statements have shaped the discussion and definition of “capitalism” to this day: Karl Marx, Max Weber, and Joseph A. Schumpeter.

Karl Marx rarely used the term *capitalism*, and then only marginally. But Marx wrote so extensively and penetratingly about the capitalist mode of production that his understanding of capitalism shaped following generations more strongly than the work of any other single person. The main components of the Marxist concept of capitalism may be summarized in four points.

1. Marx saw the *market*, which presumed a division of labor and money economy, as a central component of capitalism. He emphasized how a merciless, cross-border competition spurred

technological and organizational progress while simultaneously positioning market players against each other. He brought out the *compulsive character* of the “law” of the market, a law capitalists and workers, producers and consumers, sellers and buyers had to obey on penalty of failure, no matter what their individual motives might be.

2. Marx discussed at length capitalism’s essentially unlimited *accumulation* as one of its distinguishing features, that is, the formation and continuous increase of capital more or less as an end in itself, initially as “original accumulation” owing to transfers from other sectors (not without expropriation and not without force), then later as the reinvestment of profits, but ultimately derived from the value that labor created: capital as congealed labor.
3. Marx saw the core of the capitalist mode of production in the tension between capitalists as owners of the means of production, along with the entrepreneurs and managers dependent on these owners, on the one hand, and workers, contractually bound but otherwise freely employed in return for wages and salaries without ownership of the means of production, on the other. Both sides were bound to each other, by an exchange relationship (labor power or service against wages or salary, labor or labor power as commodity) and by a relationship of dominance and dependency that enabled the “exploitation” of workers by capitalists: exploitation in the sense that a portion of

value earned by workers, so-called surplus value, was not made available or paid out to them. This portion passed into the possession of the capitalist/entrepreneur, who used it partly to advance accumulation, partly to provide for what he consumed. The *capital–wage labor relationship* understood this way not only advanced the dynamism of the system. It simultaneously provoked class struggles that led over the long run to a confrontation between the *bourgeoisie and proletariat* facing each other as irreconcilable adversaries. This was, according to Marx, the precondition for revolution that, carried by the proletariat, will abolish the system of capitalism in favor of another, specifically socialist or communist, alternative, though Marx did not enter into any more detailed discussion of this alternative system. With this prediction, which could simultaneously be read as a call for the proletariat to attend to its historical mission, Marx transformed his theoretical conception into a practical political guideline, which is how many also understood it, starting in the late nineteenth century.

4. Marx described the enormous *dynamism of the capitalist system* that, sustained by the bourgeoisie, was dissolving everything traditional, was on its way to spreading out all over the world, and had not only the drive but also the capacity to extend its logic into noneconomic areas of life. Marx was convinced that the capitalist mode of production had a tendency to shape society,

culture, and politics decisively. What the economist Adam Smith had described as *commercial society* and the philosopher Georg Wilhelm Friedrich Hegel had called *bourgeois society*, Marx portrayed as a social formation heavily influenced by the capitalist economy.

This picture of capitalism was critically influenced by the dynamic conditions that Marx and Friedrich Engels were able to observe in the second third of the twentieth century in Germany and especially in western Europe. Marx and Engels perceived the industrial revolution as an epochal upheaval. They recognized the social dynamite inherent in the burgeoning labor question. They conceptualized capitalism in a way that made it appear fully formed only as *industrial capitalism*, with the factory and wage labor at its core. Marx did not deny the existence of older varieties of capitalism prior to industrialization, yet they were not the subject of his investigations. He was interested in capitalism in its modern, industrial form and in its emergence—in England starting with the sixteenth century.

Critiques of the Marxist conception are legion. With good reason, he has been accused of having underestimated the civilizing impact of markets while overestimating labor as the only source of newly created value. Marx has also come in for criticism for his lack of attention to the importance of knowledge and organization as sources of productivity, his mistaken predictions about the social repercussions of industrial capitalism, and his almost quaintly old-fashioned European mistrust of the market,

exchange, and self-interest. Nevertheless, Marxist analysis remains an original, fascinating, and fundamental framework, a point of reference to this day for most subsequent interpreters of capitalism, no matter how much they may criticize Marx.⁸

Max Weber treated the subject of capitalism as part of a comprehensive history of occidental modernization. Against this background he removed the concept from its fixation on the industrial age. Unlike Marx, he did not expect capitalism to be destroyed by its own crises; rather, he feared the danger of petrification owing to an excess of organization and bureaucratization. He did not believe in the superiority of a future socialist system. His analysis was more wide ranging and reached further back into history than was the case with Marx.

For Weber, capitalist economic action was characterized by competition and exchange, orientation to market prices, the deployment of capital, and the search for profit. In his definition, capitalist economic action had to include a modicum of calculation, that is, weighing of expected risk, loss, and profit, as well as control over the profitability of the capital deployed. Weber was familiar with different forms of capitalism, such as the politically oriented capitalism and rentier capitalism of ancient Europe, or the “robber capitalism” that was associated since ancient times with wars and pillaging but has also not been absent from the speculation and exploitative businesses of modern finance capitalism. Above all, Weber was interested in *modern capitalism*, which was characterized by “formal, calculative rationality.” He saw these features guaranteed above all by the structure of the capitalist *enterprise*. He emphasized

how that enterprise was separated from the private household of economic agents, and he underlined the purposive rationality systematically built into the enterprise's organization of authority. The systematic purposive rationality of the capitalist enterprise included, in Weber's accounting, such elements as the division and coordination of labor, formally free labor by workers who do not own the means of production and are subjected to workplace discipline, that is, under the command and control of entrepreneurs and managers ultimately legitimated by ownership of capital. He elaborated on how effective management of a capitalist enterprise required, on the one hand, markets in money, credit, and capital. And, on the other hand, he regarded a specific kind of economic conviction as indispensable. In his judgment, this was not to be equated with unlimited acquisitive greed, but rather called for its "rational tempering," specifically in the form of a long-range and calculated readiness to invest and reinvest with the aim of long-term entrepreneurial success as such. An important source of this "spirit of capitalism" Weber saw in the Calvinist-Puritan ethic beginning in the sixteenth century (in contrast to Werner Sombart, who stressed the role of the Jews in establishing this attitude toward business since the Middle Ages).

Weber elaborated theoretically and historically on how capitalism in this sense presupposed a certain differentiation of social reality, which included a subsystem called *economy*, with relative autonomy, especially vis-à-vis politics: an autonomy that found concrete expression in freedom of contract and market-related entrepreneurship. On the other hand, he convincingly demonstrated how much

the rise of capitalism across the centuries depended on extra-economic factors—especially on politics and law, on states, their wars, and their financial needs. And he was convinced that there was a huge “cultural significance” (*Kulturbedeutung*) to capitalism, which asserted its dynamism and its principles in many noneconomic areas of life as well. He emphasized that the kind of fully developed capitalism exhibiting all the features mentioned above was a phenomenon of the modern period. Weber was convinced that *modern capitalism* could only have emerged in the Occident, not least owing to the type of state formation that occurred here. He was no uncritical admirer of modern capitalism. While elaborating its “formal, calculative rationality,” he nonetheless underscored that the growing economic efficiency this brought did not have to be accompanied by permanent growth in prosperity for every segment of the population. Rather, as Wolfgang Schluchter summarizes Weber’s conviction, “capitalist economic action . . . does not provide for the satisfaction of needs but only for the satisfaction of ‘needs with buying power.’” Here Weber saw a “fundamental and, in the last analysis, unavoidable element . . . of irrationality” at work.

Weber has also come in for a great deal of criticism. His thesis about the connection between the Puritan Protestant ethic and the spirit of capitalism has repeatedly been questioned empirically and strongly qualified (and this is even more true of Sombart’s outmoded emphasis on the Jewish origins of the capitalist spirit). His assessment of whether non-Western civilizations, such as Islamic societies, were capable of capitalism, was not altogether free of

prejudices, and it rested on a state of research that is obviously out of date after a century.⁹ Yet his analyses are among the best that have ever been written about capitalism.

Joseph A. Schumpeter not only used the term *capitalism* in his own research, but he also deeply influenced the scholarly discussion with his book *Capitalism, Socialism and Democracy* (first published in 1942). Private property, the market mechanism, and an entrepreneurial economy were part of Schumpeter's definition of the word. "Capitalism is that form of private property economy in which innovations are carried out by means of borrowed money, which in general, though not by logical necessity, implies credit creation." By emphasizing the extension of credit and thereby the incursion of debt, Schumpeter makes a contribution that, after finance capitalism's disproportionate growth over the last several decades, is very topical today.

Schumpeter was especially concerned with explaining economic dynamics. He was searching for the mechanism by which the economy changed of its own accord. He found this in *innovation*, that is, the way that certain elements, resources, and opportunities combined to produce something economically new: new methods of production and distribution, new forms of organization in and also between businesses, the opening up of new markets for buying and selling goods, the production of new or significantly improved goods, the stimulation of new needs, and much more. It was clear to Schumpeter that introducing the new means replacing and sometimes destroying the old. In this context, he spoke of "creative destruction" as the core of capitalist development.

From this perspective, he developed his theory of the business cycle. For, in his view, innovations can trigger growth. They can cause waves of economic expansion in which innovative entrepreneurs are soon joined by many others following their lead before the wave loses its impetus, runs out of steam, and turns into a downswing until a new bundle of innovations leads to the start of a new cycle. This is the source of Schumpeter's keen interest in entrepreneurs, whom he saw as the carriers of those mechanisms of change he was investigating.

This is also the source of Schumpeter's conviction that credit is so important. For nobody can ever be completely certain about the success of innovations, and that success will only be assured, if ever, in the future. For this reason, and also because the returns innovations bring are only registered (if at all) at some later time, during the cycle's upswing, the entrepreneur carrying out innovations requires capital in advance, which he contracts as debt in order to pay it back with interest later if the project is successful. This connection between credit and the carrying out of innovations was recognized by Schumpeter as a specific feature and foundation of capitalism's dynamic force.¹⁰

He was convinced that capitalism had brought to not just a small minority but the broad majority of the population a degree of material well-being and personal freedom that was unique in human history. He also offered a psychological and sociological explanation for this enormous productivity and efficiency of the capitalist economy: this type of economy succeeds partly by awakening and partly

by enlisting ever new motifs—such as the often illusory hope for enrichment and the all too justified fear of becoming *déclassé*—and seeing to it that extremely capable, ambitious, and energetic people are recruited and retained in leadership positions. But in spite of such impressive accomplishments, Schumpeter predicted the decline of capitalism. By expanding its principles into other spheres of life, capitalism would damage the very social preconditions that made it possible. Schumpeter illustrated this with such examples as the social institution of the extended family, which for a long time had been a source of motivation and energy for capitalist entrepreneurs but was increasingly being undermined by forces of instrumental rationality and individualism conducive to the capitalist spirit. Capitalism would fail owing to the unintended consequences of its own success.¹¹

Schumpeter's work has come in for criticism. His prognosis was not confirmed in the second half of the twentieth century. His conception of innovation was too narrowly fixated on individual persons and major disruptive acts. His notion of fifty- to sixty-year business-cycle waves (*Kondratieffs*) remains highly controversial. His option for using the term *capitalism* was not emulated in mainstream economics, where society, politics, and culture were less and less included within its scope. But Schumpeter's work lives on among his followers and opponents. It is irreplaceable for the history of capitalism.

Other Voices and a Working Definition

There were many other thinkers who helped sharpen the concept. In the 1920 and 1930s, John Maynard Keynes

saw the essence of capitalism in its appeal to the “money-making and money loving instincts of individuals as the main motive force of the economic machine.” Moods, emotions, and accidents played a major role in capitalism, in his assessment, not just instrumental rationality and calculability, which were emphasized so strongly by Max Weber. Keynes saw “animal spirits” at work, forces he did not merely observe with disconcerted detachment. Rather, he acknowledged them as important driving forces behind the capitalist way of doing business, which he was convinced takes place under the pressure of incalculable uncertainty and needs these kinds of explosive charges. This assessment of Keynes—an astute, top-flight economist of his time well acquainted with business life—points to the gaps in capitalism’s instrumental rationality that have to be filled by emotions. The critique of finance capitalism, particularly since its most recent crisis, which came to a head in 2008, picks up on Keynes’s emphasis on animal spirits.¹²

Karl Polanyi’s book *The Great Transformation*, first published in 1944, hardly used the term *capitalism*. Yet, focusing on English cases from the nineteenth century, it dealt with the formation of a market economy that was breaking away from its political and social moorings—its “embeddedness”—and tending toward self-regulation. The dynamic of this market economy, according to Polanyi, stood in sharp contrast to society’s need for integration. According to him, the market had become a largely autonomous subsystem that forced permanent change, tore apart the social fabric, and prevented the emergence of a reliable social order with stable identities so long as legislation and public administration did not succeed in creating

new forms of “embeddedness” and thereby curbing the market’s destructive dynamism. Polanyi’s book, which rests on a weak empirical foundation and is not compatible with the current state of research in economic history, misconstrues social history *before* capitalist industrialization, which was already much more strongly defined by markets and much less idyllic than Polanyi supposes. Conversely, the unleashing of market forces in the nineteenth and early twentieth centuries is strongly exaggerated. Yet conceptually the book does have important food for thought. In recent years it has exerted considerable influence on the critical analysis of capitalism in the social sciences.¹³

Most authors conceive of the market as a necessary but not sufficient criterion of “capitalism.” The comparison frequently made during the decades of the Cold War between capitalism and the centrally administered economy of state socialism lent even greater prominence to the market as an essential component of capitalism. The historian Fernand Braudel wrote against this view. In his three-volume *Civilization and Capitalism, 15th–18th Century*, first published in France in 1979, he delivered penetrating descriptions of emerging capitalism while distinguishing it from the “market economy.” In the latter category he includes local markets and business transactions by traders and most merchants, but also trade fairs and stock exchanges. By contrast, he confines the term *capitalism* to the business transactions of a small and quite exclusive upper echelon of rich, powerful capitalists who, depending on how matters stood in long-distance trade, were successful merchants, shipowners, insurers, bankers, and entrepreneurs but also landowning squires, and usually several of

these simultaneously. In these upper echelons—which Braudel identified with capitalism, at least for the early modern period—market competition did not play a major role, while monopolization of market opportunities, usually facilitated by the closest of ties to the politically powerful, was all the more important.

In this way, Braudel was correctly drawing attention to how, over long periods of time, the interpenetration of market power and political power was much more the rule than was their tidy separation. Moreover, he trenchantly got to the heart of the way that oligopolistic and monopolistic tendencies can easily turn up in capitalism. These tendencies can work against the principle of competition that is supposed to be a fundamental characteristic of the market economy, and they can partially override it. Nonetheless, Braudel's definitional opposition of capitalism and market economy is misleading. Even in the early modern era, and even in its "upper echelon," the kind of capitalism taking shape was characterized by a great deal of competition, profit and loss, rise and fall, opportunity and risk. It was rooted in the market economy and, as a rule, contributed not to the elimination of markets but to their becoming more universal. Essentially, this remains true to this day.¹⁴

Immanuel Wallerstein and Giovanni Arrighi, among others, have taken up Braudel's concept of capitalism and his pathbreaking excursions into the extra-European history of capitalism. Their work has given impetus to the important question of capitalism's transnational and ultimately global dimensions. The *Communist Manifesto* had already predicted the global expansion of capitalism. In

particular, socialist theorists of imperialism like Rudolf Hilferding, Rosa Luxemburg, and Lenin¹⁵ had discussed the cross-border effects and interconnections of capitalism, especially the capitalist impulses behind imperialist expansion and dependencies between exploited peripheries and imperially dominant metropolises, as well as the link between capitalism and international conflicts. Various *dependencia* theories and, above all, Wallerstein's world-system approach developed these intellectual traditions in the third quarter of the twentieth century. And Arrighi advanced the globalization of research on capitalism by exploring the spatial shift of the world economy's center of gravity—from northern Italy in the late Middle Ages, via the Netherlands in the early modern era, and England since the eighteenth century, to the USA (twentieth century) and, perhaps, soon to China.¹⁶ With the growing receptiveness of historical scholarship to global history that has taken place over the last two decades, capitalism is increasingly discussed as a phenomenon of global history.¹⁷ This draws attention to the spatial component of capitalism, to capitalist expansion and trans-regional interconnections. New questions are being put on the agenda, and old ones are being reformulated, such as the question of the West's place in the history of capitalism. As a result, the definitions of *capitalism* that have largely been coined in Europe and North America could be subject to change over the long run. But this much is also clear: however much the concept and theories of capitalism are, by way of origin, products of Western experience and scholarship, just as little is their claim to validity and analytical power confined to the West.¹⁸ Rather, these definitions constitute an

invitation to historical inquiry that is transnational and global.

With these findings in the history of concepts and theories as a foundation, and after having examined additional proposals for defining the term,¹⁹ I propose a working definition of *capitalism* that emphasizes decentralization, commodification, and accumulation as basic characteristics. First, it is essential that individual and collective actors have rights, usually property rights, that enable them to make economic decisions in a relatively autonomous and decentralized way. Second, markets serve as the main mechanisms of allocation and coordination; commodification permeates capitalism in many ways, including labor. Third, capital is central, which means utilizing resources for present investment in expectation of future higher gains, accepting credit in addition to savings and earnings as sources of investment funds, dealing with uncertainty and risk, and maintaining profit and accumulation as goals. Change, growth, and expansion are inscribed.²⁰

I shall refrain from adding the existence of a business undertaking or enterprise as an additional feature of capitalism in order not to exclude less formalized variants by definition, variants that have been widespread across the centuries and are still—and again—so today. But there is a strong tendency to form business enterprises as capitalist units of decision-making, action, and accountability. When the enterprises are formed, their claim to accomplishment rests on “private” (meaning nongovernmental, noncommunal, noncollective) rights of property and use. They have some independence vis-à-vis the state and other social institutions, but also vis-à-vis the households

of economic actors. On the inside, enterprises are primarily hierarchical in structure. The enterprise is an important space in which capital and labor enter into a relationship with each other: there is an interaction between capitalistically legitimated entrepreneurs employing a workforce, on the one hand, and the dependently employed, namely workers and salaried employees who do not own capital or the means of production, on the other hand. Workers are typically employed as wage workers on a contractual basis—that is, for a time, without involving their entire personality—and in this sense are free. Relations between capital and labor, between employers and employees, are an exchange relationship according to market principles on the one hand, and on the other hand an asymmetrical authority relationship that permits the absorption of “surplus value” and has a variety of consequences for society.²¹

This definition allows us to include in the investigation those manifestations of capitalism that merely represent minority phenomena within noncapitalist environments. However, in order to speak of a full-fledged “capitalist economy” or a “capitalist system,” capitalist principles do need to have a certain dominance. This means not only dominance as a regulatory mechanism inside the economy (although this is also important) but also the tendency of capitalist principles to extend beyond the economy into other spheres of society and influence them to a greater or lesser extent. This dominance and pervasive influence of capitalist principles beyond the economic sphere has been the case no matter how much the anchoring of capitalism in noncapitalist relations has historically been the rule. The

system-extending character of capitalism reaching out beyond the economic sphere is capable of expressing itself to very different degrees and in quite different forms. Capitalism is possible in different societies, cultures, and state formations. At the same time, its outreach into noneconomic areas of life certainly does have its limits, which are historically variable and can become influenced by politics.

Such a working definition delineates capitalism as an ideal type, a model, that one uses even though one knows that it is not wholly identical with historical reality. Instead, reality corresponds to it in ways and to degrees that are different and ever changing. In this manner it is possible to apply the concept to eras going back a long way, eras in which the concept was not yet in use and when what it meant existed only in tiny rudiments, as trace elements of a kind of proto-capitalism in small amounts, or only on little capitalist islands in a sea of noncapitalist conditions. As an ideal type, the concept could also be used to explore realities that are still capitalistically structured but less so than before. Perhaps there actually will be such realities of declining degrees of capitalism in the future.

The following account cannot possibly aim at an exhaustive treatment of all countries and regions in which capitalism has happened. Instead, it understands capitalism as a worldwide phenomenon whose most important phases and variations, impulses, problems, and consequences it will unfold in chronological order and exemplify in different countries or regions. To that end, influential leading regions will be picked for each respective phase and variant. For the early centuries of merchant capitalism, I look at China, Arabia, and parts of Europe. In

the breakthrough phase of around 1500 to around 1800, when “modern capitalism” in Marx’s and Weber’s sense of the term emerged, western Europe moves into the center of the account, though with attention to European capitalism’s global linkages. In the nineteenth and twentieth centuries, attention shifts to industrial capitalism and finally to the rise of finance capitalism, which will primarily be illustrated with European, North American, and some Japanese examples. Capitalism’s accelerated globalization in the second half of the twentieth century and at the beginning of the twenty-first requires a look beyond the West, especially as it is experienced in East Asia. Overall, developments in Europe, and then in North America, take up the most space. This is justified by the subject: capitalism was a Western phenomenon for long stretches of its history, even if it would either not have developed or have developed differently without its global links. But the author’s preferences undoubtedly also play a role here, since I am more at home in the history of the West than in that of other continents. Fully incorporating those other regions of the globe would have to be the aim of a more comprehensive account.