The Economic Sociology of Capitalism: An Introduction and Agenda

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Capitalism is the dominant economic system in today's world, and there appear to be few alternatives in sight. Socialism, its main competitor, has been weakened immeasurably by the collapse of the Soviet Union. Where socialism still prevails, such as in the People's Republic of China, serious attempts are made to turn the whole economic system in a capitalist direction so that it will operate in a more efficient manner. "It doesn't matter if the cat is white or black as long as it catches mice," to cite a famous line by Deng Xiaping (e.g., Becker 2000: 52–53).

While the superiority of capitalism as an economic system and growth machine has fascinated economists for centuries, this has not been the case with sociologists. For sociologists capitalism has mainly been of interest for its *social* effects—how it has led to class struggle, anomie, inequality, and social problems more generally. Capitalism as an economic system in its own right and as a generator of wealth has been of considerably less interest. Some of this reaction has probably to do with the unfortunate division of labor that developed between economists and sociologists in the nineteenth century: economists studied the economy, and sociologists society minus the economy. In this respect, as in so many others, sociology has essentially been a "left-over science" (Wirth 1948).

This division of labor between economists and sociologists, however, has not gone unchallenged. In the 1980s sociologists, especially in the United States, turned their attention to the study of the economy itself, asking questions such as the following: Where do markets come from? How is economic action embedded in social relations? What role do norms and trust play in the economy? (e.g., White 1981; Stinchcombe 1983; Coleman 1985; Granovetter 1985).

That this set of questions heralded something new soon became clear. A huge amount of research—known as "New Economic Sociology"—soon came into being. By the mid-1990s enough work had been done to put together a handbook in economic sociology, with chapters on such topics as "business groups," "a rational choice perspective on economic sociology" and "networks and economic life" (Granovetter 1994; Coleman 1994;

Powell and Smith-Doerr 1994). This trend has continued very strongly, and as of today economic sociology represents one of the strongholds of American sociology.

In all of these writings by sociologists on the economy, the emphasis has primarily been on middle-range phenomena, and few efforts have been made to analyze capitalism. Why this is the case is difficult to say. One answer might be that capitalism is taken for granted, and this would seem to be especially true for the business schools, where a number of important economic sociologists are currently to be found. Another may be that new economic sociologists (with a few exceptions) do not seem to have been very interested in politics—and the concept of capitalism is by tradition among sociologists associated with a political critique of capitalism. The contributions to the study of capitalism that one can find in Marxist sociology have, for example, not been much explored by contemporary economic sociologists.[1]

If we now turn to the economists, these used to stay away from analyses of capitalism as an economic system and instead focus on the workings of the price system and show how this led to an efficient allocation of resources. The word "capitalism" was rarely used by economists during the twentieth century until they suddenly embraced it (e.g., Sombart 1930; Block 2000). Since this time, however, the economists have made quick strides forward. As a result, the leading academic scholars on the subject of capitalism are no longer sociologists but economists—from Friedrich Hayek and Milton Friedman, who started the trend, to Douglass North, Oliver Williamson, and others who have continued it.

In this opening chapter an effort will be made to present an agenda for a sociological study of capitalism. There are two reasons why this type of study may be called *an economic sociology of capitalism*. First, the main emphasis is not on the social effects of capitalism, but on capitalism as an economic system in its own right—on the firms, the banks, the markets, and the other economic institutions that make up the core of the economy. This is where the "economic" in "economic sociology" comes in. Second, whereas we already have several economic theories of capitalism, we need one which sufficiently takes the social dimension of the capitalist machinery into account—and this is where the "sociology" in "economic sociology" comes in.

A study of capitalism as an economic system should consist of two parts. First of all, studies of individual, middle-range phenomena need to be made. Indeed, this constitutes by far the most important task of an economic sociology of capitalism and cannot be replaced by macro-level studies of capitalism. But while studies of capitalism itself should not predominate, they do have their own distinct raison d'être. One of these is that studies of this type outline the basic connections between the different parts of the economy—how the whole economic process hangs together. Related to this, they also show how the study of the various parts of the economy need to be interrelated. In studying each individual part of the capitalist system it is furthermore important to be clear about what drives the system as a whole. And finally, as already the classics were well aware of, there exists an overall logic to capitalism as an economic system, which the individual actors are not aware of. Through the logic of unintended consequences capitalism not only produces individual wealth but also social wealth (Smith), not only advances for some but also setbacks and hard times for others (Marx, Weber).

A Basic Model of Capitalism

The reference to Adam Smith, Marx, and Weber leads in a natural way to the next step in this argument, namely, to the analytical point of departure for an economic sociology of capitalism. This consists of the proposition that *interests* drive the actions of the individuals, and that these interests come together in a very specific way in capitalism. The actors in society are driven by a variety of interests—political, economic, legal, and so on. It is important to insist here on *the plurality of interests* since this makes the analysis realistic as well as flexible. Interests of the same type, as well as of different types, may reinforce each other, counterbalance each other, block each other, and so on. Interests, very importantly, are what supply *the force* in the economic system—what make millions of people get up in the morning and work all day. Interests also explain why banks, financial markets, and similar institutions are so powerful: they can mobilize and energize masses of people into action through their control over economic resources.

At this point it should be noted that sociologists have often tended to ignore interests and focus exclusively on social relations and the impact that these may have. This exclusive emphasis on social relations can to some extent be explained as the professional myopia of the sociologist. It is matched, in the economic profession, by a similar overemphasis on the purely economic side of things—on economic interests and their effects, *minus* social relations as well as other types of interests. A hardhitting economic sociology would attempt to draw on the best of sociology and economics, and to *unite* interests and social relations in one and the same analysis. Interests, in all brevity, are always socially defined, and they can only be realized through social relations.[2]

Our definition of institutions can be used to exemplify this need for drawing on both interests and social relations in the analysis. Institutions are often defined in sociology—especially in the approach that has been developed by various experts on organization theory at Stanford University—in exclusively social terms, that is, as rules, models, social constructions, and so on. Everything, from this perspective, can be an institution, from a handshake and a dance to the state and the firm. The individuals with their interests are somehow abstracted away, to make room for a vision of institutions as pure and empty structures which are imitated, duplicated, and so on in a fairly effortless manner.

In contrast to this approach, institutions will here be defined as *durable lock-ins or amalgamations of interests and social relations.* This view of institutions is currently being developed, but still has some way to go (e.g., Swedberg 2003b). According to this perspective, the interests of individuals as well as of corporate actors must always be explicitly taken into account. A business firm, for example, does not exist unless you also include the capital of the firm and the interests that are associated with this. Similarly a family does not exist unless you take into account the forces (interests) that draw the members together—be they emotional, sexual, and/or economic. To this may be added that there is not only a time dimension to institutions—they tend to last for some time—but also a normative element: they tell you *how* interests should be realized in society, be they family, political, economic, or some other type of interest. The more legitimate an institution is, the more this normative element tends to be taken for granted—and this gives the institution legitimacy and makes it stronger. Finally, as a sign of the importance of institutions to society, they are typically also regulated in law.

A basic model for capitalism will now be presented which draws on a mixture of sociology and economics. Our general point of departure is the conventional definition of economics as consisting of production, distribution, and consumption. To cite a well-known textbook: "Economics is the study of how men and society end up *choosing*, with or without the use of money, to employ *scarce* productive resources which could have alternative uses, to produce various commodities and distribute them for consumption, now or in the future, among various people and groups in society" (Samuelson 1970: 4).

This definition describes the economy as a process: all economies start with *production*, continue with *distribution*, and end with *consumption*. Now all economies can be organized in what amounts to two fundamentally different ways. Weber expressed this with the help of his two categories "householding" (*Haushalten*) and "profit-making" (*Erwerben*): you produce either for consumption or for profit (Weber [1922] 1978: 86–100). Marx alluded to the same phenomenon when he spoke of "use value" versus "exchange value" (Marx [1867] 1906: 42–43). And so did Aristotle, with his famous distinction between *oekonomia* (household management) and *chrematistica* (moneymaking; Aristotle 1946: 18 ff., cf. Finley [1973] 1985: 17).

The key to the different ways of organizing the economy, I suggest, is to be found in the way that the economic product is *distributed* in the sense of being passed on in the economic process. As the reader will notice I am here departing from the way that the term distribution is often used in economics—as the division of what has been produced—and instead focusing on the different social mechanisms through which what has been produced is being passed on.

To show the fruitfulness of this approach, one may refer to Polanyi's three concepts of *redistribution*, *reciprocity*, and *exchange* (Polanyi [1957] 1971). Following Polanyi, it is clear that one way of distributing or passing on what has been produced is through *redistribution*. The agent who does the redistribution is typically the state or some other political authority. The modern socialist state is an example of an economic system that is primarily based on redistribution. Other examples can easily be found, for example, in antiquity. What has been redistributed is then consumed. Some part of what has been produced is always set aside for future production; the size of this part is decided by the political authority. An economy which is primarily based on redistribution is capable of growth—but not the dynamic type of growth that is characteristic of capitalism. It is a growth that rather follows and mirrors political decisions than an internal and independent logic.

The second way of distributing or passing on what has been produced, according to Polanyi, is through *reciprocity*. This means some horizontal form of distribution, as is common in a family or in a kin-based economy. Again, some part of what is being produced, is always set aside for future production. And, again, the result of proceeding in this manner is not going to lead to a dynamic economy. An economy which is based on reciprocity tends toward traditionalism and some form of equity.

Only the third way of distributing or passing on production—through *exchange*—can lead to a truly dynamic economic system, with an ever growing economy. The reason for this is that this system is driven not exclusively by the eternal human interest in consumption but also by the powerful interest of *profit*. The latter activates people in a very different way from what redistribution or reciprocity do. And on the assumption that the profit is also reinvested in production, a dynamic economic system—*capitalism*—will now come into being.

What is unique about capitalism, as compared to economic systems based on redistribution and reciprocity, is that it alone is primarily driven by the profit motive. The two most important social mechanisms in capitalism are consequently *exchange* and *the feedback of profit into production* (see figure 1). Complexity is added to the capitalist type of economy by the fact that it also contains several sectors or local (but interconnected) economies, which are based on reciprocity and redistribution. What can

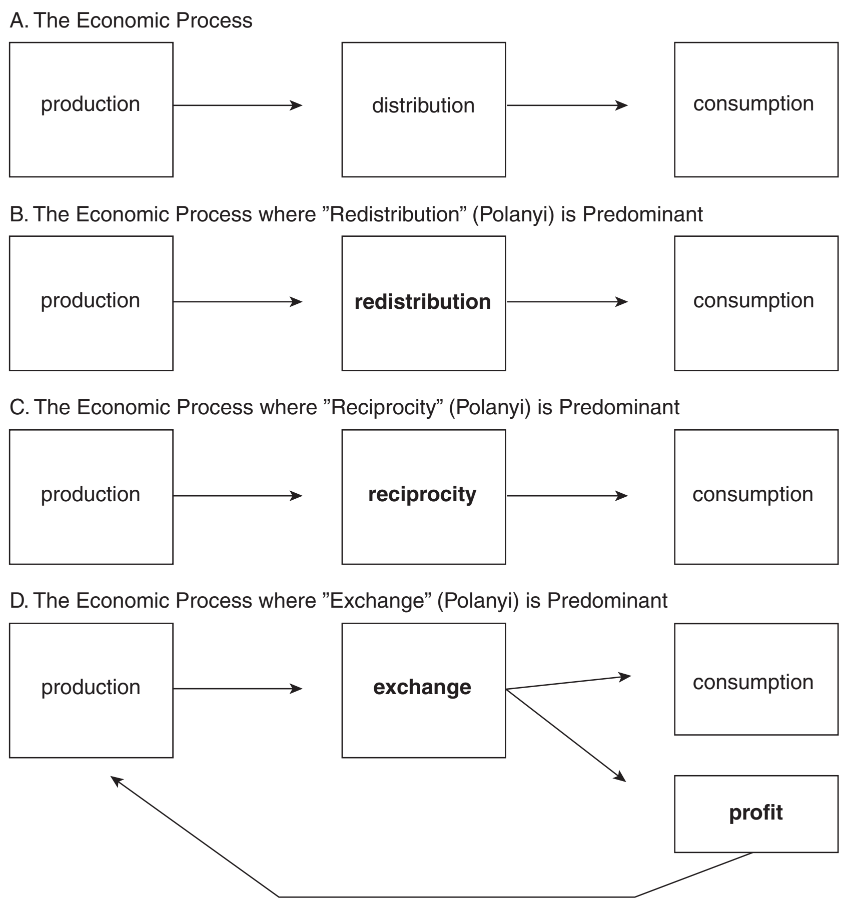

Figure 1 Capitalism and other ways of organizing the economic process and economic interests.

Comment: The economic process in any society can be defined as consisting of *production, distribution* and *consumption*. The act of distribution or passing on of what has been produced can be organized in fundamentally three ways; and which of these is chosen will have an enormous impact on the productivity of the economy as well as its social structure and relationship to the rest of society. Following Polanyi, we may call these *redistribution* (by eg. the state), *reciprocity* (in eg. a family), and *exchange* (in a market). Exchange characterizes the capitalist organization of the economy; and this type of economy derives its dynamic from the fact that the end goal of the economic process is not exclusively consumption, but also *profit*. The more that this profit is reinvested into production, the more dynamic the economy will be. The two key mechanisms in capitalism, in other words, are *organized exchange* (*the market*) and *the feedback loop of profit into production*. It is the use of these two, it should be stressed, that makes the organization of economic interests in the form of capitalism into such an effective machinery for transforming economic reality.

be called *the state economy* is, for example, based on redistribution, while *the household economy* is based on a mixture of redistribution and reciprocity. *The nonprofit economy* is based on exchange but does not aim at profit. The only sector that is squarely based on exchange and profit is consequently *the corporate economy*.

Following this model, the modern capitalist economies can be said to consist of several sectors or local (but interconnected) economies. There is, first of all, the corporate economy, where exchange dominates. There is also the nonprofit sector, which is based, among other things, on redistribution. The state accounts for a huge part of GNP (30–50 percent), and what can be called the state economy is primarily based on redistribution. The household economy is based on a mixture of redistribution and reciprocity.

The rest of this chapter is devoted to an attempt to spell out what it would mean for economic sociology to set this model of capitalism at the center of its analyses. It is clear that this would have important consequences for what may be seen as the central task of economic sociology—namely, to produce studies of production, distribution, consumption and profit-making (the first four sections of the chapter). Added to this are the following three crucial topics: the impact on the economic process by *law, politics*, and *culture* (the next three sections). For all of these topics it is also imperative to investigate how they can *speed up, slow down*, or *block* economic growth. Still, our model obviously remains highly simplistic and is in its current shape silent on a number of important economic phenomena, from savings to the dynamics of the business cycle. The focus in this chapter is on the macroeconomic level of the economic process. The reasoning on which the model is based, however, may also be used to capture essential aspects of what happens in the economy on the micro- and meso-level.

Finally, there exist a number of theories of capitalism in social science; how these can add to the approach that is being presented in this chapter will be explored in the next section. Special attention will be paid to the works of Marx, Weber, Schumpeter, Douglass North, and advocates of the varieties of capitalism-approach. The chapter ends with a discussion of some ways to bring more complexity to the model of capitalism which is advocated here.

The Sociology of Distribution

While the capitalist system consists of three basic processes which are all interdependent and shaped by the fact that they are parts of a dynamic system—production, distribution, and consumption—one of these is especially important: *distribution*, in the form of exchange on the market. This is also the main reason why it is preferable to start with distribution rather than with production (which otherwise comes "first" in the economic process).

Once it has been decided to start with distribution in the form of exchange, it immediately becomes clear that there exists an important precondition for exchange to take place in the first place, namely private property. From a sociological perspective, Weber explains, property can be conceptualized as a specific form of a closed social relationship. More precisely, it represents a relationship that allows the actor to exclude other actors from the opportunity to use some item or some person. This right is also alienable and can be inherited. Property is typically legally protected, which means that if it is infringed upon, a staff will use coercion to restore it (Weber [1922] 1978: 22, 44).

This view of property is close to the economists' view of property as a collection of enforceable property rights (e.g., Barzel 1989). The main difference is that the element of social relations is given a much more prominent and visible form in the sociological view of property. That there nonetheless exists a basic compatibility between the economic and sociological view of property can be illustrated by the fact that during the last few years a number of sociological studies have appeared, which draw on the notion of property rights (e.g., Campbell and Lindberg 1990; Nee 1992; Oi and Walder 1999).

What is crucial about private as opposed to collective property is that the former appeals directly to the individual, and in doing so, activates him or her in a manner that collective property is unable to do. Some might argue that people should in principle be as motivated by the prospect of acquiring and using collective property as they are by the prospect of acquiring and using private property. The reason why this is rarely the case, however, has much to do with the free rider problem (Olson 1965). It is also very easy for a few individuals to misuse or destroy collective property.

Once private property exists, exchange becomes possible. The driving force in an exchange is always that both parties will be better off by trading with each other than by not doing so. Actor A may value her bike at \$50 and Actor B at \$70; and if an exchange takes place both will be better off—and social wealth will have increased by \$20. For an exchange to take place, it is not necessary that one party becomes better off while no-one is worse off (Pareto optimality). What rather is needed is that both parties become better off by X, without a third party being worse off by more than X, according to the so-called Kaldor-Hicks concept of efficiency. This latter concept of efficiency is often used in economics because its demands are less stringent than those of Pareto optimality. The reason for referring to it here, however, is that it explains the nature of exchange very nicely, especially what drives the two parties to engage in an exchange in the first place.

Sociologists and economists have developed different approaches to markets—to the role that these play in the economic process, to what is typically regulated in a market, and so on. To economists, markets are primarily processes for price formation, in which the price helps to allocate scarce resources in an efficient manner. By tradition, economists have neglected the institutional dimension of markets, such as rules for exchange, the enforcement machinery, and so on (e.g., North 1977: 710; Coase 1988: 7).

Sociologists, on the other hand, tend to emphasize the role of social relations and institutions in markets. Today's sociologists will typically analyze the networks which are created by interacting market actors (e.g., Baker 1984; Uzzi 1997). Weber noted that markets consist not of repeated acts of exchange, but also of competition among the actors for who will be the one to sell and who will be the one to buy (Weber [1922] 1978: 82–85, 635). This idea of "competition for opportunities of exchange" is perfectly compatible with a networks approach, as Ronald Burt has shown in his theory of structural autonomy (Weber [1922] 1978: 635; Burt 1983, 1992).

Given the fact that economists and sociologists each hold half of the truth, so to speak, when it comes to markets, it seems natural that they should try to coordinate their efforts. Economists need to better understand the role of the social relations in the market, and sociologists need to better understand how prices are formed and what effect these have on the economy. Prices drive many economic changes in capitalism, as Douglass North has made clear—but they do so via a social structure in which interests are embedded, and where quite a bit else is going on as well (North and Thomas 1973; cf. Hayek 1945).

An economic sociology of markets should also study what changes in the exchange mechanism make the capitalist wheel spin faster as well as what slows it down and makes it grind to a halt. According to the theory of transaction costs, lower costs for market deals are a sign of a more efficient exchange mechanism. This is true indeed, and there are economic reasons for it. Lower transaction costs in this context, however, are typically accomplished through changes in social relations and in social mechanisms—and this is where the sociologist can be of help (e.g., Hedström and Swedberg 1998). Take, for example, the clause of bona fide or the fact that if the buyer is in good faith it does not matter if the seller did not acquire the goods in question in a proper manner. Bona fide naturally lowers the transaction costs—but is also a fact of such social complexity that the sociologist may be better equipped than the economist to analyze it. The same is true for many other forms of trust in economic life (e.g., Fukuyama 1995).

But economic sociology is not only interested in what makes the wheels of capitalism spin faster; there is the equally challenging question of what makes them slow down or grind to a halt. Again, Weber's work can be used for illustrations. If bureaucrats in a firm gain power at the expense of the entrepreneur, for example, profit-making will be slowed down since bureaucrats are by nature somewhat alien to the idea of profit-making. One reason for this, Weber says, has to do with the fact that people on a fixed income often find it dishonorable to be swayed exclusively by economic considerations (Weber [1922] 1978: 1108–9). But there is also the fact that if individual firms and capitalists are not stopped in their attempts to create monopolies, capitalism may wither away because there will be no competition to keep it alive (Weber [1922] 1978: 202–5). Recent scandals in corporate America have also shown how dishonest and false accounting can slow down economic growth and block new investments.

All in all, the market is *the* central institution in capitalism. To this should immediately be added that this is only true on condition that most of the production passes through the market. In the great majority of societies throughout history, markets have indeed played a role, but usually a marginal one. It is only since the late nineteenth century, in countries such as England and the United States, that the great bulk of production—food, clothes, and so on—has been produced in the form of commodities which are exchanged in the market. In 1790, for example, 80 percent of all clothing in the United States was made in the home, while a century later 90 percent was made outside the home (Boorstin 1974: 97–99).

When most of production passes through the market, it can be added, the competition for exchange that Weber speaks about as characteristic of the market will also dominate what happens in the economy *outside* of the market. That is, instead of just bringing a few surplus items to the market, as peasants often did in the Middle Ages, the producers in a modern capitalist economy must start the competition and think about the market long before they enter the market. When one speaks of a market economy, in other words, what is meant is an economy where the market is not only used for exchange; it also dominates production (and consumption, as we shall soon see).

Before leaving the topic of distribution, something also needs to be said about *money* since this is the place in the economic process where money enters into the picture. There are primarily two reasons for this: money is the medium of exchange par excellence and it is also a facilitator of credit (e.g., Menger 1892; Ingham 2004). The historical step from barter to exchange with money extended the number of goods that could be exchanged against each other enormously. Money, more generally, also helps the process exchange to proceed smoothly and lowers the cost of exchange. Many other financial innovations—such as the bill of exchange, certificates of deposit and so on—have similarly helped to lower transition costs and were developed in close touch with markets.

While money, like any other economic phenomena, has a cultural dimension (a point I shall return to), it is its place within the overall economic process that is of most interest to economic sociology. In economies based on reciprocity, money often plays a subordinate role since other values than "the cash nexus" decide who should get what. In economies based on redistribution, money is often in use, as recent examples of state socialism are a reminder of. Political interests, however, dominate the operations of money in this type of societies, and socialist states have usually failed in their attempts to simulate effective market or exchange prices.

In capitalism, in contrast, money and markets are protected by the existence of "credible commitments" from the political rulers, that is, by assurances of the rulers that they will not unduly intervene in the workings of the market. Money, in brief, is allowed to operate "freely" and can therefore help the market to operate more smoothly and cheaply. Money also plays an important role in the capitalist process in the form of capital, that is, as resources devoted to profit-seeking. Money and markets, in brief, belong together and therefore need to be studied together.

The Sociology of Production

The next major area within the economic sociology of capitalism is that of *production*. No society can live without production, and all production involves social coordination—a sociological element. Nonetheless, an economic sociology of production may want to start from the following well-known economic premise: that production consists of combinations of some or all of the traditional factors of production (land, labor, capital, technology, and "organization"; Marshall [1890] 1961). The sociologist may want to add that all of these factors of production have their own distinct sociological profiles—before they enter into production as well as once they interact in the firm. In relation to the basic model of capitalism, the factors of production can be conceptualized as inputs into production (see figure 2).

It should also be emphasized that it is not the organizational form itself (or capital or technology) that is the sole determinant of productivity. It represents a common error among organization theorists, for example, to think that organizations are what matters the most—just as Marxists think that labor is the key to all production, engineers (and many economic historians) that technology is the cause of all economic growth, and so on. *All* of these factors contribute to productivity, individually as well as in combination.

This is also where entrepreneurship in its Schumpeterian sense comes in. Entrepreneurship is classically defined by Schumpeter as the putting together of "*new combinations*" (Schumpeter 1934: 65–66; emphasis

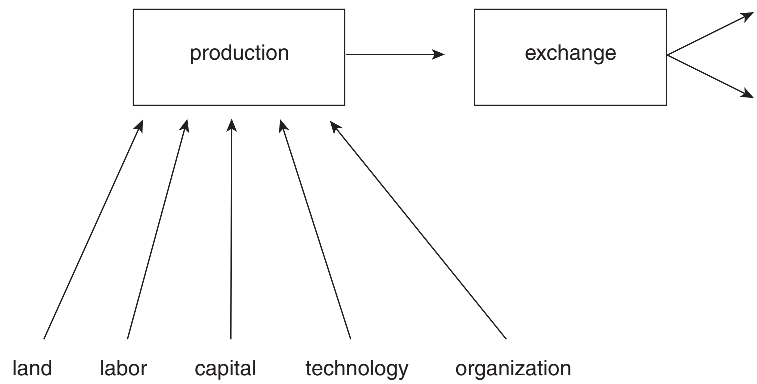

Figure 2 The factors of production in capitalism.
Comment: Following economics, the economic sociology approaches the study of production in terms of its five factors: land, labor, capital, technology and organization (Marshall). All of these factors—not only technology—influence the level of productivity.

added). An innovation may consist, for example, of a new kind of commodity or some novel way of lowering the price, and it will typically result in high profit for the entrepreneur. Soon, however, there will be more entrepreneurs and lower profit, until a stage is reached where overinvestments are made. When this happens to a number of innovations, according to Schumpeter, a business cycle is set off which works itself out in the economy—until there is a new wave of innovations and the whole process is repeated.

Factor of Production # 1: Labor

When factors of production were discussed in the nineteenth century, land was usually assigned a prominent place. In today's capitalism, however, land is of much less importance for the economy as a whole, and the average household is not dependent on working the land for its livelihood. Land as a factor of production will therefore be passed over in this chapter, and I shall proceed directly to labor, which has retained its central importance for the process of production.

Labor as a modern factor of production typically passes through two stages. There is the first stage, which takes place *before* labor enters into production; it is followed by the stage once labor has entered the market and the workplace. Two institutions which are central to labor before it enters into production are the home and the school. In the home children learn values, discipline, and how to interact (what some analysts refer to as social capital, and others as cultural capital). They also get to live in a household economy and become influenced by its values. In school, various skills are taught, some of which are of value in production, from reading, writing, and elementary mathematics in school to engineering, computer programming, and nuclear physics at the university (what some analysts refer to as human capital; for a discussion of the different forms of capital, see, e.g., Bourdieu 1986; Coleman 1990).

According to a well-known strand of sociological theory, when labor is distributed via the market it tends to form into large and loose groups of people with similar economic interests and life-chances (*classes*). When there is no market, or the market is being controlled by, say, a profession, labor instead tends to form into small and cohesive groups centered around honor and consumption (*status groups*; e.g., Weber [1922] 1978: 302–7). Whatever the exact relationship is between class and status, on the one hand, and class and labor, on the other, it is imperative for economic sociology to attempt to theorize the link between the economic process and the formation of classes and status groups in society. This is where economic sociology needs to connect with stratification theory—and perhaps also where stratification theory can get some inspiration from economic sociology.

At this point it is important to make clear that for many people who are part of the capitalist process the economy basically represents pain and difficulties. While profit-seeking brings excitement and wealth to the successful entrepreneur, a large number of people suffer from the everyday workings of capitalism. Max Weber and Pierre Bourdieu have tried to theorize this situation with the help of the concept of theodicy ("why is there suffering in the world, and why do some people suffer more than others?"; e.g., Weber 1946; Bourdieu et al. 1999). Weber, for example, refers to what he calls "the theodicy of good fortune" or the fact that people who are successful also want to feel that they deserve their good fortune, and therefore develop and seek out various accounts to this effect (Weber 1946: 271). There also is the equivalent "theodicy of suffering" which explains to those who are misfortunate why they suffer and why they should put up with a harsh world. While the concept of theodicy originally was religious in nature, it has become secular in the works of Weber and Bourdieu as well as increasingly applicable to the world of the economy.

In modern capitalist society labor tends to form into three broad categories: workers, professionals, and managers. Sociology is by tradition skillful in tracing the structure of groups as well as the mentalities of their members, while economists often tend to use a nondifferentiated concept of labor and emphasize the crucial role played by the productivity of the worker (according to the standard formula of marginal productivity theory; but see also the different approach of personnel economics in, e.g., Lazear 1995). Again, it would appear that both sociology and economics can benefit from the insights of the other science.

To what extent can labor, before as well as after entering the process of production, add to, slow down, or block the wheels of capitalism? What happens in the home and the school, in terms of creation of values and skills, is clearly of great relevance for an answer to this question. And so is what happens at the workplace, where informal norms and groups are formed and where trade unions may be active. It is also important if the element of status or class predominates. Status groups, Weber argues, are inherently anticapitalist since they set honor and other noneconomic values before profit-making. They are antagonistic to the market since the market disregards the values that its members hold dear. The more labor feels the impact of the market, on the other hand, the more the element of class will be predominant. In this situation individual actors typically accept the logic of the market: the need for efficiency, profit-making, and constant reinvestment. Honor of the type that exists in a status group can be characterized as an ideal interest—but an ideal interest that is closely allied with material interests.

Factor of Production # 2: Capital

Economists pay by tradition much attention to the role of capital in the process of production; while sociologists, if they study capital at all, tend to analyze its role outside of production, in the form of so-called wealth (e.g., Keister 2000). Again, the two approaches may want to draw on each other's insights in order to get a full picture of what is going on. To this can be added that the groups in society who control the economic resources have different attitudes to wealth—how it should be acquired, what it can be used for, and so on. Aristocrats, for example, have traditionally had contempt for merchants, and so have warriors. There is also the fact that certain groups of merchants take larger risks than others, and this will naturally have an important impact on the generation of wealth and capital. Merchants furthermore deal in different types of goods, as exemplified by the historical appearance of *the businessman*—a term that was first used in the U.S. in the 1830s to denote a new type of merchant, who traded not only in goods but also in land and whatever else could result in a profit (Boorstin 1974: 115).[3]

Control over capital is often delegated by the owner to some other actor, and this creates for the owner the well-known problem of corporate control. A flexible type of analysis that economists use to handle this type of situation is agency theory, which is based on the idea that the owner (the principal) has a different interest from that of the one to whom he or she assigns some specific task (the agent). This means that something has to be done about the divergence of interest. One solution is direct observation of the agent (monitoring); another is to give the agent an incentive to act in the interest of the owner (alignment of interests). The former is less easy to carry out when it comes to managers as opposed to workers; there is also the problem of "who will monitor the monitor" (e.g., Alchian and Demsetz 1972).

Agency theory can enrich economic sociology by adding to its analyses, especially when it comes to the question of how the owner can maintain control over his or her capital, once a manager is in place. According to Harrison White, for example, the advantage of agency theory is that "it is intensely social in its mechanisms, since it gets one person to do something for another vis-à-vis a third person but only with heavy reliance on the lay of the social landscape" (White 1985: 187; cf. White 1992: 245–54). James Coleman has a similarly positive view of the sociological potential of agency theory, as is clear from the following quote from *Foundations of Social Theory*: "once a transaction has been made, in which the principal satisfies interests of the agent (for example, through a monetary payment) in return for the agent's using his actions to pursue the principal's interests, a social system has been created" (Coleman 1990: 152).

A corporation can acquire capital in a variety of ways—from banks, venture capitalists, the capital market, and so on. Each of these institutions has its own distinct social structure and history which sociology can help to analyze. Pension funds and other mutual funds which have become key players in the modern capital market are often managed by single individuals; very little is currently known about these. Agency theory, in combination with economic sociology, represents one way of approaching this type of issue.

The way that capital is brought to production will also affect the generation of economic value. Risk taking, as already mentioned, is a crucial factor at this point of the process, closely related to the profit level. But risk taking itself is also affected by social relations, as the historical emergence of venture capital in the United States a few decades ago illustrates (see the chapter by John Freeman in this volume). What characterizes venture capitalists is typically an intimate knowledge of the business in which they invest, often in combination with some form of control over the firm that is being targeted. Together, these two measures make risk taking more manageable—and thereby also increase the chance to make a high profit. Again, this is a topic where economic sociology can be of assistance.

Factor of Production # 3: Technology

Contemporary capitalism is heavily dependent on technology, primarily because it helps to increase productivity (e.g., Rosenberg and Birdzell 1986; Mokyr 1990). Exactly how this is done, however, is something that neither economists nor sociologists understand very well. The concept of productivity, for example, is in need of much clarification. Economists realize well the importance of technology in this context, but have difficulty in theorizing it (e.g., Solow 2002). A sign of this is the discussion about the role of computers in the economic growth in the United States in the 1990s. "You can see the computer age everywhere but in the productivity statistics," to quote a famous line by Robert Solow (Solow 1987).

Another difficulty with the economists' view of technology is that they often see technology as the one and only reason for growth in productivity. While innovations in technology may well be *the* major reason for growth in productivity in modern capitalism, it is by no means the only one, and it most surely could not operate in isolation. Social organization, in particular, affects productivity, a fact that industrial sociology made clear many decades ago (e.g., Roy 1952; cf. Roethlisberger and Dickson 1939).

Sociologists differ from economists in that they rarely note that technology is of great importance to productivity and the generation of profits. Sociologists of science of the old school view science primarily as a public good, which may once have been true but is less so today. Modern sociologists of science, on the other hand, argue that science and technology essentially are to be understood as forms of social construction, a position which may well be true from a philosophical perspective but which is of limited relevance to an understanding of the role science and technology play in the economic process.

From historians of technology we know that economically relevant technology for a long time emerged in a slow, evolutionary manner—as evidenced by the history of boat, the ax, the plow, and so on. At the time of the Industrial Revolution, and even more so during the second half of the nineteenth century, however, a historical meeting took place between capitalism and science. This alliance has continued till today and has become ever more important to the dynamic growth of capitalism.

It has often been pointed out that social organization can accelerate or impede the emergence of new technology, which in turn will affect the economy. In his study of religions in India, for example, Weber notes that the caste system blocked innovations by forbidding changes in the tools of the artisans (Weber [1921] 1958: 103; cf. Schroeder and Swedberg 2002). Since the penalty for a change of this type was religious, Weber's example also illustrates how a religious interest (in this case successful reincarnation) can be used to block an economic interest (in this case improved productivity). In today's society, to use a more contemporary example, we are witnessing an important change in the property rights to science, which has helped to speed up production. While science until recently was seen as a common good, ways are now increasingly found to turn it into a private good (e.g., Mirowski and Miriam-Sent 2002). The forces that have caused this change are obvious enough. A new pharmaceutical drug can, for example, be worth billions of dollars in profit. It currently also costs some 800 million dollars to develop a new drug.

Factor of Production # 4: Organization (Marshall)

Alfred Marshall sensed the limits to the economics of his days and argued, in *Principles of Economics* [1890] (1961), that not only land, labor, and capital but also "organization" should be considered a factor of production. By organization Marshall meant a number of phenomena, including the individual firm as well as a dynamic collection of firms in the same geographical area, which he termed "industrial district" (Marshall [1890] 1961, 1: 138–39, 240–313). The insight that organization is crucial to profit-making is also at the heart of what is known as organizational economics, which draws on a mixture of agency theory, game theory, transaction cost analysis, and law and economics—but not on sociology (e.g., Barnes and Ouchi 1986; Milgrom and Roberts 1992).

Nonetheless, sociologists have developed a series of conceptual tools that can be used to analyze the way the factors of production come together in the profit-making firm. Sociologists, however, are to a certain extent held back from making the contribution they should be able to make by their belief that the central unit of analysis is the generic organization and not the corporation (cf. Davis and McAdam 2000). When sociologists do research on firms this is typically translated into knowledge about organizations in general (e.g., Perrow 2002). The following facts about the modern firm are consequently ignored: (1) that the firm has its own institutional history; (2) that the firm is treated differently from other organizations in laws and regulations; and (3) that firms in modern society control more economic resources than any other type of organization, except for the state.

Regardless of this critique, it is clear that several of the concepts and middle-range theories that have been developed in organization theory can be of considerable help in analyzing corporations, and to some extent they have already been used for this purpose. This is true, for example, for population ecology and for resource dependency (e.g., Burt 1983; Carrol and Hannan 1995). Networks are another helpful tool which can be used, for example, to trace the relations between corporations that are a result of their attempts to make a profit (e.g., Ebers 1997). There is also the insight that work groups can develop norms that go counter to the goals of the corporation, so-called opposition norms (Nee 1998).

It is obvious that the way a corporation is organized will speed up, slow down, or block profit-making. What was once thought to represent the ideal design for a firm—the huge, bureaucratically organized firm with much of the knowledge and power to decide concentrated at the top (Weber, Chandler)—has fallen out of favor. It is indeed true that certain new technologies as well as new ways of appealing to the interests of the employees can replace monitoring with interest alignment, and that this has led to changes in the old type of corporation. What modern firms strive for, however, is not to so much to create a decentralized or a less formal corporation per se, but to do what it takes to make a profit.

The Sociology of Consumption

Consumption, to cite *The Wealth of Nations*, represents the end product of production: "consumption is the sole end and purpose of all production" (Smith [1776] 1976: 660). From the viewpoint of the model of capitalism that has been presented in this chapter, however, things are not that simple. For one thing, how income at the end of the process is divided between consumption and profit is of crucial importance. The more profit that is taken out by the owners and fed back into production, the faster the wheels of capitalism tend to spin.

There is also the fact that consumption will affect the productivity of labor. If we return to figure 1, it is possible to imagine a line that goes from consumption to production, via labor as a factor of production. Adequate food and some amount of leisure, fueling body and mind, are examples of this. Education that is paid by private means would be another.

But even if consumption does have an indirect effect on production, as just exemplified, its main contribution to capitalism is that it takes place in the first place. The fact that human beings must satisfy their material needs may sound like a triviality. And so it is—except that consumption always has to increase in capitalism, in contrast to economies based on redistribution or reciprocity. If this does not happen, profits stagnate and capitalism loses its vitality. This means that efforts always have to be made, as part of the process of *production*, to encourage consumption as much as possible. Advertisement is one way to accomplish this, but there are many more. In modern capitalist society whole settings in the form of shopping centers and the like have been created, precisely for this purpose. One observer refers to these as "means of consumption" (Ritzer 1999).

Consumption can be speeded up, slowed down, or blocked through the impact of various forces—and thereby affect the capitalist machinery. The United States, for example, has for a long time been a commercial society, with a population with a strong desire for democratic "comfort" as opposed to aristocratic "luxury"; this clearly greases the wheels of capitalism (e.g., Tocqueville [1835–40] 1945). Immediately after September 11, to use another example from the United States, shopping was nearly proclaimed a patriotic duty so that the economy would not slump. Examples also exist of societies which have tried to block consumption. One example is Florence in the fifteenth century, when the city was ruled by Savonarola, who staged the famous "bonfires of vanities"—public burnings of expensive dresses, sensual paintings, and the like which were judged to detract from a pious life (for sumptuary laws, see, e.g., Hunt 1995).

The Sociology of Profit

The fact that the level of profit is directly related to how much is set aside for consumption has already been mentioned. To this can be added that profit, according to economists, can in principle not be affected by social forces. Sociologists, however, see things differently. To sociologists productivity is notoriously difficult to measure, and the theory of marginal productivity is very hard to apply empirically. It is also clear, as noted earlier, that the social relations of an employee will affect productivity. A worker may, for example, be more or less productive depending on the work group he or she is part of (e.g., Granovetter 1988). The size of the wages, of course, also affects the profit level and depends, among other things, on the strength of the unions.

Regardless of the actual size of the profit, however, it is *the opportunity for more profit* that drives the capitalist process forward. According to Weber, capitalism is primarily characterized by "the pursuit of profit, and forever *renewed* profit" (Weber [1904–5] 1958: 17). Marx expressed the same idea in his well-known formula M-C-M′, where M stands for money, C for commodity, and M′ for money plus an increment, equaling surplus value (Marx [1867] 1990: 247–57). In a similar vein, the capitalist process is set in motion by the search for profit and—equally important—kept in motion by the continuous reinvestment of profit in production.

It is clear that while the size of the profit in relation to consumption is one thing, how much of the profit is reinvested is another. It is also obvious that the level of reinvestment is influenced by social forces. In a discussion of Latin America in the 1960s, S. M. Lipset noted, for example, how successful businessmen in Chile, Argentina, Paraguay, and some other countries often withdrew their earnings from industry and invested it in land, to acquire the status of landowners (Lipset [1967] 1988). Puritan businessmen in Weber's *Protestant Ethic*, on the other hand, used very little of their profit for their own consumption and reinvested the bulk. They had contempt for the aristocrats and their consumption of luxuries. The religion of the Puritans allowed them to make a profit since this meant that God looked favorably at their activities. They were not, however, allowed to indulge their senses—just as they were not allowed to enjoy sex, even if they were allowed to procreate.

According to Weber, accounting grew out of the need to calculate profit, as exemplified by the need to know exactly how much was due to each party in a commenda (e.g., Weber [1923] 1981: 206–7). To this can be added that profit is a social construction, in the sense that what is presented as profit in, say, an annual report may differ quite a bit from what is reported to, say, the tax authorities. As any newspaper reader knows after Enron, the way that accounting rules are applied will also affect the level of profit. "Aggressive accounting" is the term currently used for accounting practices in the United States which are in the gray zone between legality and illegality, and which are used to artificially increase profits.

Among the factors that may block profit and profit-making, religion is of special historical importance. Most religions have been negative to business, since profit-making has been seen as negative to the attempt to lead a life according to religious principles. "You cannot serve both God and Money" (Matthew 6:24). But exceptions also exist not only where religion and profit-making have coexisted, but where religion has actually *encouraged* profit-making. The most famous case of this is obviously ascetic Protestantism, as analyzed in *The Protestant Ethic*. One may possibly also add contemporary America, since the United States both is a very religious country and has the most vigorous capitalism. I say "possibly" because neither sociologists of religion nor economic sociologists have addressed this issue squarely, so we consequently do not know what role religion really plays in contemporary American capitalism (cf. Inglehart and Baker 2000; Barro 2002).

Additional Factor # 1: The Role of Law

In addition to the factors that make up the basic model of capitalism, which is discussed in this chapter, a few more must be added: *law, politics (including the state)*, and *culture*. Law is typically part of the political machinery, but it deserves to be singled out and treated in a separate section. One reason for this is that law introduces an extra layer, so to speak, between political decisions and their execution (Swedberg 2003a; cf. Edelman and Stryker 2005). To become reality, political decisions often have to be translated into legal language and interpreted by legal experts. Individual actors also needs to orient their actions to the law itself and comply with it, in order for it to have an effect on their behavior. Another reason why law deserves to be treated separately from the state is that courts can be more or less independent of the rest of the state. American courts, for example, are to a large extent peopled by judges who have been elected, as opposed to courts in Europe, where judges are appointed and essentially civil servants. Furthermore, all laws in the United States are subject to judicial review and can in principle be overturned. The European Union, it can be added, seems to be moving in a similar direction.

The basic relationship between law and the economy is as follows. Since private property is a precondition for a capitalist economy, so is the law about private property. Conflicts always emerge in society, including the economy, and law represents a legitimate way to settle conflicts. Law also helps to ensure predictability, which is essential for an advanced capitalist economy. In general, the economy thrives on peace, and law is essential for there to be peace in society.

Sociologists have often noted that law is necessary to *prevent* certain economic actions from taking place. Law, for example, is used to stop the formation of monopolies and discrimination against women and minorities in the labor market (e.g., Fligstein 1990; Edelman 1992). Sociologists have also pointed out that law can be used to *punish* economic actors who engage in the wrong type of behavior, from petty thievery in the workplace to the kind of economic wrongdoing that is policed by the SEC (e.g., Shapiro 1984; Tucker 1999).

What has not been much explored by sociologists, however, is that law can play an *enabling* role in the economy (Swedberg 2003a). Law can, for example, help to "release [economic] energy," to cite the famous expression of James Willard Hurst (e.g., 1956). Judges can be encouraged to use wealth maximization as a guide in their legal questions (e.g., Posner 1981). In general, contracts also provide actors with a new tool through which they can create economic relations of their own (e.g., Weber [1922] 1978: 667).

From what has just been said it is clear that law can further the capitalist process and make it operate in a more efficient manner. It is also clear that it can block economic development, by forbidding certain kinds of economic actions. One historical example of this is the labeling of certain loans as usury. To this should be added, however, that businesspeople often choose to disregard the law—they often ignore it, whether it operates in their favor or not (e.g., Macaulay 1963). Another elementary insight from the sociology of law is that major economic transformations can take place without any equivalent change in the legal system (e.g., Weber [1922] 1978: 333–34; Renner [1904] 1949).

Additional Factor # 2: The Role of Politics (including the State)

The role of politics and the state in the economy is complex. In general, the state in a capitalist economy has less power over the economy than does the state in a redistributory one. In the latter the state controls the great bulk of the economic resources and also decides what rules to follow; in a capitalist economy the state has the power only to set the rules and to channel certain resources from one point in society to another, not to decide how economic

		Control of Resources for Production: YES	Control of Resources for Production: NO
Capacity to Set Rules	YES	Socialist state	Capitalist state
	NO	Patrimonial states in early history	Libertarian non-state

Figure 3 Capacity of the state to control resources for production versus capacity to set rules in the economy.
Comment: The state can have different types of control over the economy: control of resources for production is one of these, and the capacity to set the rules in the economy is another. In modern capitalism the state typically lacks control of resources for production but can set rules in the economy. In socialism, on the other hand, the state has control of economic resources as well as the capacity to set rules.

resources are to be used for purposes of production. This last situation, as has often been pointed out by economists, is actually more complex than it may at first appear. The capitalist state has to solve what has been called "the fundamental political dilemma of an economy," namely that the state has to be strong enough to enforce private property rights but still refrain from using its strength to expropriate private property (e.g., North et al. 2000: 21; see figure 3).

That the capitalist state has no or little say over the use of the economic resources when it comes to production does not mean that it is without economic power. No state can exist without economic resources of its own, especially the modern capitalist state, which has a number of tasks to fulfill: defense, education, health care, welfare, regulation, and so on. The capitalist state finances its expenses primarily by seizing part of what has been produced, from what otherwise would have gone to consumption or to profit. The decision to tax consumption or profit is an important political question. The sociological study of the generation and spending of the state's resources belongs to a much neglected field of study, known as fiscal sociology (Schumpeter [1918] 1991; see also Campbell, this volume).

A question which has been much discussed in contemporary social science is the relationship between democracy and capitalism. Several different opinions exist on this issue. There is, on the one hand, S. M. Lipset's assertion that prosperous countries tend to be democratic, which has led to a huge amount of research (Lipset 1960; for a stronger version of this thesis, see, e.g., Friedman 1962). One insight which has grown out of the discussion of Lipset's thesis is that it is very difficult to pinpoint the exact social mechanisms that account for the relationship between prosperity and democracy (for a review of the literature, see Diamond 1992). Weber, in contrast, considers the relationship between capitalism and democracy to be much more problematic, and he has recently been backed up by various studies by Robert Barro (e.g., Weber [1916] 1994: 68–70; Barro 2000). A third theory states that countries which have been industrialized under the leadership of the bourgeoisie tend to become democratic, in contrast to countries which have been industrialized under the leadership of a class of landowners (Moore 1966; cf. Rueschemeyer et al. 1997).

Democratic or not, it is clear that the capitalist state can steer the economy in various ways. Two traditional ways of doing so are through fiscal and monetary policy—two topics on which economists, as opposed to sociologists, are knowledgeable. To this should be added that the state can also influence the economy through regulation and industrial policy, and that especially the former is extremely important in modern society. While economists worry that these last two ways of influencing the economy may sap capitalism of its vitality, sociologists tend to see them as positive and much needed (see, e.g., Stigler 1971 versus Fligstein 2001). Regulations as well as industrial policy, in brief, can be used to speed up the economy as well as slow it down—and so can monetary and fiscal policy.

Additional Factor # 3: The Role of Culture in the Economy

Culture is a difficult and complex topic for economists as well as sociologists. In sociology, the traditional concept of culture draws heavily on Weber and essentially covers two topics which are overlapping but not identical: *valuation* and *sense-making* (e.g., Weber [1904] 1949: 76, [1907] 1977: 109; cf. [1922] 1978: 98). Or to put it into more concrete language, the cultural element of an economic action has to do with the fact that (1) anything economic is typically viewed as being either positive or negative, and (2) economic phenomena, like all human phenomena, have somehow to be pieced together in the human mind in order to make sense and acquire a distinct *Gestalt*.

To cite one of Weber's examples that deals with the first point, profit-making can be seen as negative in a religion (e.g., Catholicism) or as positive (e.g., ascetic Protestantism). And to cite one of Weber's examples which illustrates how people make sense of an economic phenomenon with the help of culture: the act of passing around little pieces of metal only becomes an exchange of money under certain conditions (Weber [1907] 1977: 109).

It can be added that whether trade in money is seen as positive or negative is also a question which involves culture, from a Weberian perspective. In nearly all cultures this type of activity has been looked down upon and been associated with various outcast groups, such as the Jews in medieval

Europe. This is much less the case in modern capitalism—where nonetheless traces of these earlier beliefs still linger on, as illustrated by the instinctive hostility to someone like Soros or to financial capital more generally.

Attempts have recently been made to import some insights from cognitive psychology into the sociological concept of culture (e.g., DiMaggio 1997). To what extent this will succeed is too early to tell. What remains true, however, is the fruitfulness of the Weberian approach, namely of equating culture with values as well as with sense-making. A series of studies of economic culture, from Tocqueville's analysis of nineteenth-century America to Clifford Geertz's analysis of Indonesia in the twentieth century, testify to this (e.g., Tocqueville [1835–40] 1945; Geertz 1963; see also, e.g., Lipset [1967] 1988, 1996).

Some of these studies also describe how economic culture can speed up the economic process. This, for example, is what Tocqueville claims that American culture did for the economy in the nineteenth century or, for that matter, what Weber claims that ascetic Protestantism did for certain parts of Western Europe a few centuries earlier. Indeed, Tocqueville's *Democracy in America* can be seen as a sequel to *The Protestant Ethic* in this respect, and his theory of the role played in the U.S. economy by religion (tempering immediate interest into "interest properly understood") parallels Weber's ideas about the impact of the Puritans.

That economic culture also can dampen and block capitalist development can similarly be illustrated by referring to the works of Tocqueville and Weber. The culture in the American South, according to *Democracy in America*, devalued labor by associating it with slavery, and this led to a stagnant economy. The same was true according to Weber for societies with a dualistic economic ethic, according to which members of the in-group should be treated fairly, while dishonesty and trickery were allowed in dealing with outsiders. This attitude made it hard for rational capitalism to emerge.

Finally, special mention should be made of a recent attempt to revive a classical cultural concept in the analysis of capitalism, namely Weber's notion of "the spirit of capitalism." In *Le nouvel esprit du capitalisme* (1999) Luc Boltanski and Eve Chiapello look at the major types of ideologies that have been used to justify capitalism, from the nineteenth century till today. Their definition of the spirit of capitalism is as follows: "we have labeled as a 'spirit of capitalism' the ideology that justifies people's commitment to capitalism, and which renders this commitment attractive" (Boltanski and Chiapello 2002: 2). During much of the twentieth century the spirit of capitalism was centered around big organizations and stability, but it is now in the process of being replaced by "a new spirit of capitalism." The heart of this new spirit, they argue, mainly consists of arguments that justify and glorify a decentralized economic world in which flexibility and networks play a key role. Running a corporation is seen as conceiving and executing a never ending series of "projects," each of which has its own network (the "Project World").

On Different Attempts to Analyze Capitalism

The main message in this chapter so far is that profit-making is at the center of the capitalist enterprise and should also be at the center of analyses of capitalism. Related to this, it has been suggested that economic sociology should study the factors that favor profit-making as well as the factors that slow it down or block it. A number of competing theories of capitalism exist—by the classics, by economists, and by sociologists. Something can be learned from many of these, especially from the theories of Weber, Schumpeter, and North. Some of them, however, are passé and not very useful.

One theory of capitalism which seems less relevant today is that of Marx, which is also the one that has been the most popular among sociologists (e.g., Berger 1986, 1987). There are several reasons why sociologists of today may want to replace Marx's theory with a new one. One of these has to do with Marx's view of culture and law as a part of the so-called superstructure, which is created by economic forces and which is unable to influence the economy on its own. This is plainly wrong—as is Marx's theory that what drives history in capitalist society is the production of surplus value, translated into class struggle. More generally, Marx's view of capitalism is closely modeled on nineteenth-century capitalism in Europe, with its abject misery in the cities and often violent clashes between the classes. This state of affairs, however, turned out *not* to be a permanent feature of capitalism. The general economic situation is very different in many countries today, and the working class has more to lose than its chains.

Much of what Weber and Schumpeter have to say about capitalism, on the other hand, is still relevant for an understanding of capitalism. Weber's *General Economic History*, for example, remains unsurpassed as a concentrated history of capitalism. *Economy and Society* is similarly instructive on many points—and so is Schumpeter's masterpiece, *Capitalism, Socialism and Democracy.*

One important suggestion that Weber makes a propos capitalism is that one should speak of capitalism not in the singular (as Marx did), but in the *plural*—of different types of capitalism. His own typology in *Economy and Society*—rational, political, and traditional capitalism—is a case in point (Weber [1922] 1978: 164–66). While this typology is well known in sociological circles, it has been little used in concrete studies.

It should also be emphasized that even if much of value can be learned by a closer textual reading of the classics, the real challenge that faces today's economic sociologists is to incorporate the insights of the classics about capitalism into a new and more hard-hitting theory which can be used to analyze contemporary capitalism. Similar to the way that classical political economy once became transformed into neoclassical economics, classical sociology needs to be transformed into a more effective type of sociology.

How this can be done can be illustrated with the help of *The Protestant Ethic*, a work which is typically seen by sociologists as a study of how ascetic Protestantism helped to create the spirit of modern capitalism. Weber's argument on this point has, for example, been fleshed out by James Coleman in his famous model of macro-micro-macro relations in chapter 1 of *Foundations of Sociology* (Coleman 1990: 6–10). The doctrine of Protestantism affects the attitudes of individual believers, who gradually transfer the methodical scheme of their new religious beliefs onto their economic activities, helping thereby to create, together with other individuals in a similar position, the spirit of modern capitalism.

While this emphasis on the link between religious and economic attitudes was no doubt part of Weber's story, *The Protestant Ethic* can also be read—and more effectively, I would argue—as an analysis centered around *interests* and their relationship to social structures. Ascetic Protestantism had such an impact on the individual, according to this view, because it deeply affected his or her religious interests (*Heilsgüter*), not just his or her religious attitudes. As Coleman indicates, Weber goes below the surface—but to the interests of the individual. When the believer began to think that his or her achievements in the area of the economy could also influence his or her chances in the next world, the force of economic interests was wedded to the force of religious interests, and this created an extremely powerful force. Indeed, it was a force that was so powerful that it could break through the old hold of traditional religion and traditional capitalist ideology. *The Protestant Ethic*, from this perspective, can be seen as a textbook case for how to carry out an effective interest analysis with the help of sociology.

If we now leave the sociologists for a moment and switch to the economists, it is clear that these have not been very interested in producing theories about capitalism. One reason for this is that from the turn of the nineteenth century till the mid-1970s, when New Institutional Economics had its breakthrough, economists did not pay much attention to institutions. Another is that economists associated the term "capitalism" with the political ideology of socialism and avoided the term as much as they could.[4] One important exception to this whole trend is the work of Schumpeter, which deserves special mention (cf. Galbraith [1952] 1956; Hayek 1954; Mises 1956; Friedman 1962).

Schumpeter's general theory of capitalism can be found in a series of work, the most important of which are *Theory of Economic Development* (1911, 1934), *Business Cycles* (1939) and *Capitalism, Socialism and Democracy* (1942; e.g., Swedberg 2002). The heart of Schumpeter's argument is that capitalism stands and falls with entrepreneurship: if capitalism continuously presents new opportunities for profit it will thrive, otherwise it will die out and be replaced by some some form of bureaucracy and socialism. "Creative destruction," or the replacement of old businesses with new businesses, is the very essence of the capitalist process (Schumpeter [1942] 1994: 81–86). In Schumpeter's last major statement on capitalism—an article he wrote for *Encyclopaedia Brittanica* in 1946—he defines capitalism as follows: "a society is called capitalist if it entrusts its economic process to the guidance of the private businessman" (Schumpeter [1946] 1951: 184). Capitalism, he also argues in this article, has gone through a series of different periods, from "Early Capitalism" to the "Modern Phase." Of all of these periods, Schumpeter notes, the one that had been the most favorable to capitalism was "Intact Capitalism." During this period, which was set off by the Industrial Revolution and lasted until the end of the nineteenth century, the elements of free trade and laissez-faire were very strong; taxes were low and there was little protectionism.

Of contemporary economists who have written about capitalism, Douglass North may well be the most important (e.g., North 1970; North and Thomas 1973). It can be argued that North's early theory of capitalism as primarily driven by changes in relative prices, which lead to efficient property rights, is less realistic than his later theory of capitalism, with its strong emphasis on institutions and rules. This is a view that goes well with the model of capitalism as a special mixture of interests and social relations which has been presented in this chapter.

To this should be added that North's works are filled with ideas that have turned out to be very helpful in analyzing capitalism. These include his theory of the state as an institution which maximizes the wealth (or utility) of the ruler; his ideas about the positive role played by errors in history; and his analysis of how reputation, under certain conditions, can replace coercion as a means of reinforcing legal decisions about the economy.

There also exist a few theories of capitalism which have been created by other social scientists than economists. Immanuel Wallerstein and his followers have, for example, created a theory of capitalism as a world system, and they should be credited with having carried out research on many countries which have attracted little attention from the average academic in the West (cf. Wallerstein 1974–89; e.g., Hall 2000). Wallerstein's idea that capitalism is unique insofar that it is the first economic system which does not coincide with a distinct political territory is another useful insight that has been generated by this perspective. Capitalism, in brief, is a system that goes beyond the boundaries of empires and nation-states. As a general theory of capitalism, however, the idea of capitalism as a world-system with a center, a periphery, and so on is less useful. Since its creation in the 1970s world-system theory has also followed its own distinct course and more or less ignored what has happened in economics and economic sociology.

Another theory of capitalism, or more precisely, of advanced Western capitalism, is the one that is associated with the work on "flexible production" (e.g., Piore and Sabel 1984; Zeitlin 1990). Two major contributions of this theory are to have drawn attention to the existence of industrial districts and to the decentralizing impact of some new technologies. On the negative side, this type of theory tends to overplay the impact of technology. It also has a strong normative tone, as do many studies in political economy. Finally, Sabel, Piore, and so on take no position on a number of issues which are central to a full theory of capitalism.

Since the end of the 1980s a literature has also emerged which is known as "varieties of capitalism" (e.g., Berger and Dore 1996; Crouch and Streeck 1997; Hollingsworth and Boyer 1997; Hall and Soskice 2001; cf. Kitschelt et al. 1999). The main idea here is to outline the institutional and social structure of the economy in industrial countries, and then compare these, in the spirit of political economy. Many valuable insights and empirical facts can be found in this literature, which currently represents the most important competitor to North's theory of capitalism.

On the negative side is the fact that much of the literature on the varieties of capitalism is perhaps better described as studies of the political and economic history of individual Western countries and how these compare to each other, than as studies of capitalism and its special dynamic. Two further drawbacks with this approach are its normative undertone and its general tendency to disregard the fact that capitalism has to be understood as a social system centered around profit-making, and not as a collection of social, economic, and political institutions for governance. Social relations (in the form of institutions) rather than interests are at the center of this approach.

Concluding Remarks

Material and ideal interests directly govern men's behavior.
—Max Weber, The Sociology of Religion (1946: 212)

An attempt has been made in this chapter to outline a model of capitalism that can be of help in setting an agenda for an economic sociology of capitalism. According to the argument that has been presented, production, exchange, consumption, and profit constitute the four main themes in an economic sociology of this type; to these should also be added the impact that law, politics, and culture may have on these.

More has been left unsaid than said in this chapter, as is often the case when vast topics are addressed. Nonetheless, it is hoped that the core of the argument will prove useful, namely, the need to set interests and the way that these are played out in social relationships at the center of the analysis. Economic sociology, I argue, should not exclusively look at social relations—be they in the form of networks, organizations, institutions, or whatever—it also has to take into account what drives social action, namely *interests* (cf. Swedberg 2003b, 2005).

Before concluding this chapter, two important topics need to be addressed. The first has to do with the relationship of the theory that has just been presented to rational choice theory, and the second with the need to take ethnicity and gender into account. Rational choice theory draws on methodological individualism and strongly emphasizes the element of choice. The economic actor, in all brevity, chooses what is best for him or her. In this chapter I part company with many economists by emphasizing the role played by interests much more than the role of choice. I also disagree with the assumption that the actor knows his or her interests and automatically chooses the best way to proceed.

The position I argue for is as follows. Actors sometimes do not know their own interests, and if they do know them, they may still not know how to realize them. More generally, economic reality is often such that whatever the actors do, they will fail or only partially succeed in realizing their interests. That this description of the role of interests answers to reality is something that lost investments, bankruptcies, bad career choices, and so on are a daily reminder of. What Erving Goffman has said about game theory applies, as I see it, just as well to interests:

> persons often don't know what game they are in or whom they are playing for until they have already played. Even when they know about their own position, they may be unclear as to whom, if anybody, they are playing against, and, if anyone, what his game is, let alone his framework of possible moves. Knowing their own possible moves, they may be quite unable to make any estimate of the likelihood of the various outcomes or the value to be placed on each of them. . . . Of course, these various difficulties can be dealt with by approximating the possible outcomes along with the value and likelihood of each, and casting the result in a game matrix; but while this is justified as an exercise, the approximations may have (and be felt to have), woefully little relation to the facts. (Goffman [1961] 1972: 149–50)

A second point that needs to be addressed in this chapter has to do with the role of ethnicity and gender in capitalism. Both of these phenomena are deeply influenced by culture. While Weber's two rules of thumb about culture are simple enough—culture involves valuation and sense-making—cultural phenomena are difficult to analyze empirically, and ethnicity and gender illustrate this more than well. While there is a tendency among sociologists to study and discuss these two phenomena apart from capitalism, I would strongly argue that it is crucial for economic sociology to try to include them in one and the same analysis as economic phenomena.

How this is to be done is something that needs to be discussed. There already exists an important sociological literature on ethnicity and the economy, as well as on women and the economy (e.g., Light and Karageorgis 1994; Milkman and Townsley 1994; England and Folbre 2005). From this it is clear that the activities of minorities and women are typically devalued in various manners—through prejudices, stereotypes, and the like. Still, interests drive the actions of majorities and males vis-à-vis minorities and women, and the way that a number of different interests are aligned, set against one another, and so on, will have an important impact on what happens in ethnic and gender-related relations. To analyze gender and ethnicity without taking interests into account may result in analyses that portray these as free-floating social constructions; and this is something that should be avoided. Here as elsewhere in economic sociology a useful starting point for the analysis may be the following maxim: *follow the interests!*

Notes

1. For exceptions, see especially the work of Fred Block and Erik Olin Wright. Both of these authors have a distinguished list of publications in the area of Marxist sociology. Their main contributions has been to de-dogmatize the Marxist theory of the state (Block) and to turn the Marxist analysis of class in an empirical direction (Wright; see, e.g., Block 1987; Wright 1997). In his current work, it should be mentioned, Block draws mainly on the work of Karl Polanyi, especially *The Great Transformation*.

2. For an elaboration of this argument, see my *Principles of Economic Sociology* (Swedberg 2003b).

3. The Oxford English Dictionary lists only two references to "business woman"—one dated 1844 and the other 1958 (Oxford English Dictionary Online 1989).

4. The term capitalism has its origin in the Latin word "caput," which means "head" as in "head of cattle" (Braudel [1979] 1985: 232–39; cf. Weber [1922] 1978: 95–96). An early meaning of the word "capital" is that of wealth as well as the principal sum of a loan. The term "[money] capital" is first found in medieval Italy. The word "capitalist" was used many centuries later and never in a friendly sense. The term "capitalism" can be traced back to the nineteenth century and

probably to Louis Blanc; it was, however, probably used already in the eighteenth century. Marx never used the term "capitalism" in his published writings. In academic circles the term "capitalism" was popularized by Werner Sombart around the turn of the twentieth century (cf. Sombart 1930). Sombart notes, however, that while "capitalism" was used by the members of the German Historical School, other economists did not use it (Schumpeter being a lone exception). In the 1950s Hayek and Galbraith helped to brake this trend by both using the term capitalism in their works. Both also commented on the negative connotations of the term. According to Hayek, the reason for economists avoiding the term capitalism was clear: "it [that is, capitalism] is connected with the idea of the rise of the propertyless proletariat, which by some devious process have been deprived of their rightful ownership of the tools for their work" (Hayek 1954: 15). Galbraith simply noted that "for many years this term [that is, capitalism] . . . has been regarded as vaguely obscene. All sorts of euphemisms—free enterprise, individual enterprise, the competitive system and the price system—are currently used in its place" (Galbraith [1952] 1956: 4). The history of the term "capitalism" in more recent times has been traced by Fred Block. In the 1960s in the United States, according to Block, the term capitalism was associated with Communist propaganda and studiously avoided by the establishment. "It is impossible to exaggerate how much has changed over the intervening thirty years. . . . [Today] the businessmen routinely talk about capitalism, and the term has lost any hint of connection to a critical discourse" (Block 2000: 84–85).

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