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# ECONOMY AND SOCIETY

AN OUTLINE OF INTERPRETIVE SOCIOLOGY

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3. It is possible for action to be oriented to an order in other ways than through conformity with its prescriptions, as they are generally understood by the actors. Even in the case of evasion or disobedience, the probability of their being recognized as valid norms may have an effect on action. This may, in the first place, be true from the point of view of sheer expediency. A thief orients his action to the validity of the criminal law in that he acts surreptitiously. The fact that the order is recognized as valid in his society is made evident by the fact that he cannot violate it openly without punishment. But apart from this limiting case, it is very common for violation of an order to be confined to more or less numerous partial deviations from it, or for the attempt to be made, with varying degrees of good faith, to justify the deviation as legitimate. Furthermore, there may exist at the same time different interpretations of the meaning of the order. In such cases, for sociological purposes, each can be said to be valid insofar as it actually determines the course of action. The fact that, in the same social group, a plurality of contradictory systems of order may all be recognized as valid, is not a source of difficulty for the sociological approach. Indeed, it is even possible for the same individual to orient his action to contradictory systems of order. This can take place not only at different times, as is an everyday occurrence, but even in the case of the same concrete act. A person who fights a duel follows the code of honor; but at the same time, insofar as he either keeps it secret or conversely gives himself up to the police, he takes account of the criminal law. To be sure, when evasion or contravention of the generally understood meaning of an order has become the rule, the order can be said to be "valid" only in a limited degree and, in the extreme case, not at all. Thus for sociological purposes there does not exist, as there does for the law, a rigid alternative between the validity and lack of validity of a given order. On the contrary, there is a gradual transition between the two extremes; and also it is possible, as it has been pointed out, for contradictory systems of order to exist at the same time. In that case each is "valid" precisely to the extent that there is a probability that action will in fact be oriented to it.

[Excursus:] Those familiar with the literature of this subject will recall the part played by the concept of "order" in the brilliant book of Rudolf Stammler, which was cited in the prefatory note, a book which, though like all his works it is very able, is nevertheless fundamentally misleading and confuses the issues in a catastrophic fashion. (The reader may compare the author's critical discussion of it, which was also cited in the same place, a discussion which, because of the author's annoyance at Stammler's confusion, was unfortunately written in somewhat too acrimonious a tone.) Stammler fails to distinguish the normative meaning of "validity" from the empirical. He further fails to recognize that social action is oriented to other things beside systems of order. Above all, however, in a way which is wholly

indefensible from a logical point of view, he treats order as a "form" of social action and then attempts to bring it into a type of relation to "content," which is analogous to that of form and content in the theory of knowledge. Other errors in his argument will be left aside. But economic action, for instance, is oriented to knowledge of the relative scarcity of certain available means to want satisfaction, in relation to the actor's state of needs and to the present and probable action of others, insofar as the latter affects the same resources. But at the same time, of course, the actor in his choice of economic procedures naturally orients himself *in addition* to the conventional and legal rules which he recognizes as valid, that is, of which he knows that a violation on his part would call forth a given reaction of other persons. Stammler succeeds in introducing a state of hopeless confusion into this very simple empirical situation, particularly in that he maintains that a causal relationship between an order and actual empirical action involves a contradiction in terms. It is true, of course, that there is no causal relationship between the *normative* validity of an order in the legal sense and any empirical process. In that context there is only the question of whether the order as correctly interpreted in the legal sense "applies" to the empirical situation. The question is whether in a *normative* sense it *should* be treated as valid and, if so, what the content of its normative prescriptions for this situation should be. But for sociological purposes, as distinguished from legal, it is only the probability of orientation to the subjective *belief* in the validity of an order which constitutes the valid order itself. It is undeniable that, in the ordinary sense of the word "causal," there is a causal relationship between this probability and the relevant course of economic action.

### 6. Types of Legitimate Order: Convention and Law

The legitimacy of an order may be guaranteed in two principal ways:<sup>20</sup>

- I. The guarantee may be purely subjective, being either
  1. affectual: resulting from emotional surrender; or
  2. value-rational: determined by the belief in the absolute validity of the order as the expression of ultimate values of an ethical, esthetic or of any other type; or
  3. religious: determined by the belief that salvation depends upon obedience to the order.
- II. The legitimacy of an order may, however, be guaranteed also (or merely) by the expectation of specific external effects, that is, by interest situations.



An order will be called

(a) *convention* so far as its validity is externally guaranteed by the probability that deviation from it within a given social group will result in a relatively general and practically significant reaction of disapproval;

(b) *law* if it is externally guaranteed by the probability that physical or psychological coercion will be applied by a *staff* of people in order to bring about compliance or avenge violation.

(On the concept of convention see Weigelin, *op. cit.*, and F. Tönnies, *Die Sitte* [1909], besides Jhering, *op. cit.*)

1. The term convention will be employed to designate that part of the custom followed within a given social group which is recognized as "binding" and protected against violation by sanctions of disapproval. As distinguished from "law" in the sense of the present discussion, it is not enforced by a staff. Stammler distinguishes convention from law in terms of the entirely voluntary character of conformity. This is not, however, in accord with everyday usage and does not even fit the examples he gives. Conformity with convention in such matters as the usual forms of greeting, the mode of dress recognized as appropriate or respectable, and various of the rules governing the restrictions on social intercourse, both in form and in content, is very definitely expected of the individual and regarded as binding on him. It is not, as in the case of certain ways of preparing food, a mere usage, which he is free to conform to or not as he sees fit. A violation of conventional rules—such as standards of "respectability" (*Standessitte*)—often leads to the extremely severe and effective sanction of an informal boycott on the part of members of one's status group. This may actually be a more severe punishment than any legal penalty. The only thing lacking is a staff with the specialized function of maintaining enforcement of the order, such as judges, prosecuting attorneys, administrative officials, or sheriffs. The transition, however, is gradual. The case of conventional guarantee of an order which most closely approaches the legal is the application of a formally threatened and organized boycott. For terminological purposes, this is best considered a form of legal coercion. Conventional rules may, in addition to mere disapproval, also be upheld by other means; thus domestic authority may be employed to expel a visitor who defies convention. This fact is not, however, important in the present context. The decisive point is that the individual, by virtue of the existence of conventional disapproval, applies these sanctions, however drastic, on his own authority, not as a member of a staff endowed with a specific authority for this purpose.

2. For the purposes of this discussion the concept "law" will be made to turn on the presence of a staff engaged in enforcement, however useful it might be to define it differently for other purposes. The

character of this agency naturally need not be at all similar to what is at present familiar. In particular it is not necessary that there should be any specifically "judicial" authority. The clan, as an agency of blood revenge and of the prosecution of feuds, is such an enforcing agency if there exist any sort of rules which governs its behavior in such situations. But this is on the extreme borderline of what can be called legal enforcement. As is well known, it has often been denied that international law could be called law, precisely because there is no legal authority above the state capable of enforcing it. In terms of the present terminology this would be correct, for we could not call "law" a system the sanctions of which consisted wholly in expectations of disapproval and of the reprisals of injured parties, which is thus guaranteed entirely by convention and self-interest without the help of a specialized enforcement agency. But for purposes of legal terminology exactly the opposite might well be acceptable.

In any case the means of coercion are irrelevant. Even a "brotherly admonition," such as has been used in various religious sects as the first degree of mild coercion of the sinner, is "law" provided it is regulated by some order and applied by a staff. The same is to be said about the [Roman] censorial reprimand as a means to guarantee the observance of ethical duties and, even more so, about psychological coercion through ecclesiastic discipline. Hence "law" may be guaranteed by hierocratic as well as political authority, by the statutes of a voluntary association or domestic authority or through a sodality or some other association. The rules of [German students' fraternities known as] the *Komment* [and regulating such matters as convivial drinking or singing] are also law in our sense, just as the case of those [legally regulated but unenforceable] duties which are mentioned in Section 888, paragraph 2 of the German Code of Civil Procedure [for instance, the duty arising from an engagement to marry].<sup>21</sup> The *leges imperfectae* and the category of "natural obligations" are forms of legal terminology which express indirectly limits or conditions of the application of compulsion. In the same sense a trade practice which is compulsorily enforced is also law. See secs. 157 and 242 of the German Civil Code. On the concept of "fair practice" (*gute Sitte*), that is, desirable custom which is worthy of legal sanction, see Max Rümelin's essay in the *Schwäbische Heimatgabe für Theodor Häring* (1918).

3. It is not necessary for a valid order to be of a general and abstract character. The distinction between a legal norm and the judicial decision in a concrete case, for instance, has not always and everywhere been as clearly made as we have today come to expect. An "order" may thus occur simply as the order governing a single concrete situation. The details of this subject belong in the Sociology of Law. But for present purposes, unless otherwise specified, the modern distinction between a norm and a specific decision will be taken for granted.

4. A system of order which is guaranteed by external sanctions may at the same time be guaranteed by disinterested subjective attitudes.



The relations of law, convention, and "ethics" do not constitute a problem for sociology. From a sociological point of view an "ethical" standard is one to which men attribute a certain type of value and which, by virtue of this belief, they treat as a valid norm governing their action. In this sense it can be spoken of as defining what is ethically good in the same way that action which is called beautiful is measured by esthetic standards. It is possible for ethically normative beliefs of this kind to have a profound influence on action in the absence of any sort of external guarantee. This is often the case when the interests of others would be little affected by their violation.

Such ethical beliefs are also often guaranteed by religious motives, but they may at the same time, in the present terminology, be upheld to an important extent by disapproval of violations and the consequent boycott, or even legally with the corresponding sanctions of criminal or private law or of police measures. Every system of ethics which has in a sociological sense become validly established is likely to be upheld to a large extent by the probability that disapproval will result from its violation, that is, by convention. On the other hand, it is by no means necessary that all conventionally or legally guaranteed forms of order should claim the authority of ethical norms. Legal rules, much more often than conventional ones, may have been established entirely on grounds of expediency. Whether a belief in the validity of an order as such, which is current in a social group, is to be regarded as belonging to the realm of "ethics" or is a mere convention or a mere legal norm, cannot, for sociological purposes, be decided in general terms. It must be treated as relative to the conception of what values are treated as "ethical" in the social group in question.

### 7. Bases of Legitimacy: Tradition, Faith, Enactment

The actors may ascribe legitimacy to a social order by virtue of:

- (a) *tradition*: valid is that which has always been;
- (b) *affectual*, especially emotional, *faith*: valid is that which is newly revealed or exemplary;
- (c) *value-rational* faith: valid is that which has been deduced as an absolute;
- (d) positive enactment which is believed to be *legal*.

Such legality may be treated as legitimate because:

- ( $\alpha$ ) it derives from a voluntary agreement of the interested parties;
- ( $\beta$ ) it is imposed by an authority which is held to be legitimate and therefore meets with compliance.

All further details, except for a few other concepts to be defined below, belong in the Sociology of Law and the Sociology of Domination. For the present, only a few remarks are necessary.

1. The validity of a social order by virtue of the sacredness of tradition is the oldest and most universal type of legitimacy. The fear of magical evils reinforces the general psychological inhibitions against any sort of change in customary modes of action. At the same time the manifold vested interests which tend to favor conformity with an established order help to perpetuate it. (More in ch. III.)

2. Conscious departures from tradition in the establishment of a new order were originally almost entirely due to prophetic oracles or at least to pronouncements which were sanctioned as prophetic and thus were considered sacred. This was true as late as the statutes of the Greek *aisymnetai*. Conformity thus depended on belief in the legitimacy of the prophet. In times of strict traditionalism a new order—one actually regarded as new—was not possible without revelation unless it was claimed that it had always been valid though not yet rightly known, or that it had been obscured for a time and was now being restored to its rightful place.

3. The purest type of legitimacy based on value-rationality is *natural law*. The influence of its logically deduced propositions upon actual conduct has lagged far behind its ideal claims; that they have had some influence cannot be denied, however. Its propositions must be distinguished from those of revealed, enacted, and traditional law.

4. Today the most common form of legitimacy is the belief in legality, the compliance with enactments which are *formally* correct and which have been made in the accustomed manner. In this respect, the distinction between an order derived from voluntary agreement and one which has been imposed is only relative. For so far as the agreement underlying the order is not unanimous, as in the past has often been held necessary for complete legitimacy, the order is actually imposed upon the minority; in this frequent case the order in a given group depends upon the acquiescence of those who hold different opinions. On the other hand, it is very common for minorities, by force or by the use of more ruthless and far-sighted methods, to impose an order which in the course of time comes to be regarded as legitimate by those who originally resisted it. Insofar as the ballot is used as a legal means of altering an order, it is very common for the will of a minority to attain a formal majority and for the majority to submit. In this case majority rule is a mere illusion. The belief in the legality of an order as established by voluntary agreement is relatively ancient and is occasionally found among so-called primitive people; but in these cases it is almost always supplemented by the authority of oracles.

5. So far as it is not derived merely from fear or from motives of expediency, a willingness to submit to an order imposed by one man or a small group, always implies a belief in the legitimate authority (*Herrschaftsgewalt*) of the source imposing it. This subject will be dealt with separately below: see sections 13 and 16 and ch. III.

6. Submission to an order is almost always determined by a variety of interests and by a mixture of adherence to tradition and belief in



long as they face the same situation; but to do this, he needs a following which, on the appropriate occasions, serves as his administrative staff in exercising the necessary compulsion. (However, it is theoretically conceivable that this type of control is exercised by a single individual.)

2. If it possesses an administrative staff, an organization is always to some degree based on domination. But the concept is relative. In general, an effectively ruling organization is also an administrative one. The character of the organization is determined by a variety of factors: the mode in which the administration is carried out, the character of the personnel, the objects over which it exercises control, and the extent of effective jurisdiction. The first two factors in particular are dependent in the highest degree on the way in which domination is legitimized (see ch. III).

### 17. Political and Hierocratic Organizations

A "ruling organization" will be called "political" insofar as its existence and order is continuously safeguarded within a given *territorial* area by the threat and application of physical force on the part of the administrative staff. A compulsory political organization with continuous operations (*politischer Anstaltsbetrieb*) will be called a "state" insofar as its administrative staff successfully upholds the claim to the *monopoly* of the *legitimate* use of physical force in the enforcement of its order. Social action, especially organized action, will be spoken of as "politically oriented" if it aims at exerting influence on the government of a political organization; especially at the appropriation, expropriation, redistribution or allocation of the powers of government.

A "hierocratic organization" is an organization which enforces its order through psychic coercion by distributing or denying religious benefits ("hierocratic coercion"). A compulsory hierocratic organization will be called a "church" insofar as its administrative staff claims a monopoly of the legitimate use of hierocratic coercion.

1. It goes without saying that the use of physical force (*Gewaltsamkeit*) is neither the sole, nor even the most usual, method of administration of political organizations. On the contrary, their heads have employed all conceivable means to bring about their ends. But, at the same time, the threat of force, and in the case of need its actual use, is the method which is specific to political organizations and is always the last resort when others have failed. Conversely, physical force is by no means limited to political groups even as a legitimate method of enforcement. It has been freely used by kinship groups, household groups, consociations and, in the Middle Ages, under certain circumstances by all those entitled to bear arms. In addition to the fact that it uses, among other

means, physical force to enforce its system of order, the political organization is further characterized by the fact that the authority of its administrative staff is claimed as binding within a territorial area and this claim is upheld by force. Whenever organizations which make use of force are also characterized by the claim to territorial jurisdiction, such as village communities or even some household groups, federations of guilds or of workers' associations ("soviets"), they are by definition to that extent political organizations.

2. It is not possible to define a political organization, including the state, in terms of the end to which its action is devoted. All the way from provision for subsistence to the patronage of art, there is no conceivable end which *some* political association has not at some time pursued. And from the protection of personal security to the administration of justice, there is none which *all* have recognized. Thus it is possible to define the "political" character of an organization only in terms of the *means* peculiar to it, the use of force. This means is, however, in the above sense specific, and is indispensable to its character. It is even, under certain circumstances, elevated into an end in itself.

This usage does not exactly conform to everyday speech. But the latter is too inconsistent to be used for technical purposes. We speak of the foreign currency *policy*<sup>33</sup> of a central bank, the financial *policy* of an association, or the educational *policy* of a local authority, and mean the systematic treatment and conduct of particular affairs. It comes considerably closer to the present meaning when we distinguish the "political" aspect or implication of a question. Thus there is the "political" official, the "political" newspaper, the "political" revolution, the "political" club, the "political" party, and the "political" consequences of an action, as distinguished from others such as the economic, cultural, or religious aspect of the persons, affairs or processes in question. In this usage we generally mean by "political," things that have to do with relations of authority within what is, in the present terminology, a political organization, the state. The reference is to things which are likely to uphold, to change or overthrow, to hinder or promote, these authority relations as distinguished from persons, things, and processes which have nothing to do with it. This usage thus seeks to bring out the common features of domination, the way it is exercised by the state, irrespective of the ends involved. Hence it is legitimate to claim that the definition put forward here is only a more precise formulation of what is meant in everyday usage in that it gives sharp emphasis to what is most characteristic of this *means*: the actual or threatened use of force. It is, of course, true that everyday usage applies the term "political," not only to groups which are the direct agents of the legitimate use of force itself, but also to other, often wholly peaceful groups, which attempt to influence the activities of the political organization. It seems best for present purposes to distinguish this type of social action, "politically oriented" action, from political action as such, the actual organized action of political groups.



3. Since the concept of the state has only in modern times reached its full development, it is best to define it in terms appropriate to the modern type of state, but at the same time, in terms which abstract from the values of the present day, since these are particularly subject to change. The primary formal characteristics of the modern state are as follows: It possesses an administrative and legal order subject to change by legislation, to which the organized activities of the administrative staff, which are also controlled by regulations, are oriented. This system of order claims binding authority, not only over the members of the state, the citizens, most of whom have obtained membership by birth, but also to a very large extent over all action taking place in the area of its jurisdiction. It is thus a compulsory organization with a territorial basis. Furthermore, today, the use of force is regarded as legitimate only so far as it is either permitted by the state or prescribed by it. Thus the right of a father to discipline his children is recognized—a survival of the former independent authority of the head of a household, which in the right to use force has sometimes extended to a power of life and death over children and slaves. The claim of the modern state to monopolize the use of force is as essential to it as its character of compulsory jurisdiction and of continuous operation.

4. In formulating the concept of a hierocratic organization, it is not possible to use the character of the religious benefits it offers, whether worldly or other-worldly, material or spiritual, as the decisive criterion. What is important is rather the fact that its control over these values can form the basis of a system of spiritual domination over human beings. What is most characteristic of the church, even in the common usage of the term, is the fact that it is a rational, compulsory association with continuous operation and that it claims a monopolistic authority. It is normal for a church to strive for complete control on a territorial basis and to attempt to set up the corresponding territorial or parochial organization. So far as this takes place, the means by which this claim to monopoly is upheld will vary from case to case. But historically, its control over territorial areas has not been nearly so essential to the church as to political associations; and this is particularly true today. It is its character as a compulsory association, particularly the fact that one becomes a member of the church by birth, which distinguishes the church from a "sect." It is characteristic of the latter that it is a voluntary association and admits only persons with specific religious qualifications. (This subject will be further discussed in the Sociology of Religion.)

#### NOTES

Unless otherwise noted, all notes in this chapter are by Talcott Parsons. For Parsons' exposition and critique of Weber's methodology, see his introduction to *The Theory of Social and Economic Organization* and his *Structure of Social Action*.

1. "Über einige Kategorien der verstehenden Soziologie," originally in *Logos*, IV, 1913, 253ff; reprinted in *GAzW*, 427-74. However, the reader should be aware from the very beginning that Part Two below, the older and major body of the manuscript, follows the terminology of this essay. For some of the relevant terminology, see Appendix I. (R)

2. It has not seemed advisable to attempt a rigorous use of a single English term whenever Weber employs *Verstehen*. "Understanding" has been most commonly used. Other expressions such as "subjectively understandable," "interpretation in subjective terms," "comprehension," etc., have been used from time to time as the context seemed to demand.

3. In this series of definitions Weber employs several important terms which need discussion. In addition to *Verstehen*, which has already been commented upon, there are four important ones: *Deuten*, *Sinn*, *Handeln*, and *Verhalten*. *Deuten* has generally been translated as "interpret." As used by Weber in this context it refers to the interpretation of subjective states of mind and the meanings which can be imputed as intended by an actor. Any other meaning of the word "interpretation" is irrelevant to Weber's discussion. The term *Sinn* has generally been translated as "meaning"; and its variations, particularly the corresponding adjectives, *sinnhaft*, *sinnvoll*, *sinnfremd*, have been dealt with by appropriately modifying the term *meaning*. The reference here again is always to features of the content of subjective states of mind or of symbolic systems which are ultimately referable to such states of mind.

The terms *Handeln* and *Verhalten* are directly related. *Verhalten* is the broader term referring to any mode of behavior of human individuals, regardless of the frame of reference in terms of which it is analysed. "Behavior" has seemed to be the most appropriate English equivalent. *Handeln*, on the other hand, refers to the concrete phenomenon of human behavior only insofar as it is capable of "understanding," in Weber's technical sense, in terms of subjective categories. The most appropriate English equivalent has seemed to be "action." This corresponds to [Parsons'] usage in *The Structure of Social Action* and would seem to be fairly well established. "Conduct" is also similar and has sometimes been used. *Deuten*, *Verstehen*, and *Sinn* are thus applicable to human behavior only insofar as it constitutes action or conduct in this specific sense.

4. Weber's text in Part One is organized in a manner frequently found in the German academic literature of his day, in that he first lays down certain fundamental definitions and then proceeds to comment on them. These comments, which apparently were not intended to be "read" in the ordinary sense, but rather serve as reference material for the clarification and systematization of the theoretical concepts and their implications, are in the German edition printed in a smaller type, a convention which we have followed in the rest of Part One. However, while in most cases the comments are relatively brief, under the definitions of "sociology" and "social action" Weber wrote what are essentially methodological essays (sec. 1:A-B), which because of their length we have printed in the ordinary type. (R)

5. Weber means by "pure type" what he himself generally called and what has come to be known in the literature about his methodology as the "ideal type." The reader may be referred for general orientation to Weber's own essay (to which he himself refers below), "Die 'Objektivität' sozialwissenschaftlicher Erkenntnis" ("Objectivity" in Social Science and Social Policy," in *Max Weber: The Methodology of the Social Sciences*. Edward Shils and Henry Finch, trans. and eds. (Glencoe: The Free Press, 1949), 50-113; originally published in *AfS*, vol. 19, 1904, reprinted in *GAzW*, 146-214); to two works of Alexander von Schelting, "Die logische Theorie der historischen Kulturwissenschaften von Max



than capital; "income," than profit. It is, however, true that historically the budgetary unit has been prior and has been the dominant form in most periods of the past.

4. It is indifferent what unit is the bearer of a budgetary management economy. Both the budget of a state and the family budget of a worker fall under the same category.

5. Empirically the administration of budgetary units and profit-making are not mutually exclusive alternatives. The business of a consumers' cooperative, for instance, is normally oriented to the economical provision for wants; but in the form of its activity, it is a "profit-making organization" without being oriented to profit as a substantive end. In the action of an individual, the two elements may be so intimately intertwined, and in the past have typically been so, that only the concluding act—namely, the sale or the consumption of the product—can serve as a basis for interpreting the meaning of the action. This has been particularly true of small peasants. Exchange may well be a part of the process of budgetary management where it is a matter of acquiring consumption goods by exchange and of disposing of surpluses. On the other hand, the budgetary economy of a prince or a landed lord may include profit-making enterprises in the sense of the following discussion. This has been true on a large scale in earlier times. Whole industries have developed out of the heterocephalous and heteronomous auxiliary enterprises which seigneurial landowners, monasteries, princes, etc., have established to exploit the products of their lands and forests. All sorts of profit-making enterprises today are part of the economy of such budgetary units as local authorities or even states. In these cases it is legitimate to include in the "income" of the budgetary units, if they are rationally administered, only the net profits of these enterprises. Conversely, it is possible for profit-making enterprises to establish various types of heteronomous budgetary units under their direction for such purposes as providing subsistence for slaves or wage workers—among them are "welfare" organizations, housing and eating facilities. Net profits in the sense of point (2) of this section are money surpluses after the deduction of all money costs.

6. It has been possible here to give only the most elementary starting points for analysing the significance of economic calculations in kind for general social development.

### 11. *The Concept and Types of Profit-Making. The Role of Capital*

"Profit-making" (*Erwerben*)<sup>16</sup> is activity which is oriented to opportunities for seeking new powers of control over goods on a single occasion, repeatedly, or continuously. "Profit-making activity" is activity which is oriented at least in part to opportunities of profit-making. Profit-

making is "economic" if it is oriented to acquisition by peaceful methods. It may be oriented to the exploitation of market situations. "Means of profit-making" (*Erwerbsmittel*) are those goods and other economic advantages which are used in the interests of economic profit-making. "Exchange for profit" is that which is oriented to market situations in order to increase control over goods rather than to secure means for consumption (budgetary exchange). "Business credit" is that credit which is extended or taken up as a means of increasing control over the requisites of profit-making activity.

There is a form of monetary accounting which is peculiar to rational economic profit-making; namely, "capital accounting." Capital accounting is the valuation and verification of opportunities for profit and of the success of profit-making activity by means of a valuation of the total assets (goods and money) of the enterprise at the beginning of a profit-making venture, and the comparison of this with a similar valuation of the assets still present and newly acquired, at the end of the process; in the case of a profit-making organization operating continuously, the same is done for an accounting period. In either case a balance is drawn between the initial and final states of the assets. "Capital" is the money value of the means of profit-making available to the enterprise at the balancing of the books; "profit" and correspondingly "loss," the difference between the initial balance and that drawn at the conclusion of the period. "Capital risk" is the estimated probability of a loss in this balance. An economic "enterprise" (*Unternehmen*) is autonomous action capable of orientation to capital accounting. This orientation takes place by means of "calculation": ex-ante calculation of the probable risks and chances of profit, ex-post calculation for the verification of the actual profit or loss resulting. "Profitability" means, in the rational case, one of two things: (1) the profit estimated as possible by ex-ante calculations, the attainment of which is made an objective of the entrepreneur's activity; or (2) that which the ex-post calculation shows actually to have been earned in a given period, and which is available for the consumption uses of the entrepreneur without prejudice to his chances of future profitability. In both cases it is usually expressed in ratios—today, percentages—in relation to the capital of the initial balance.

Enterprises based on capital accounting may be oriented to the exploitation of opportunities of acquisition afforded by the market, or they may be oriented toward other chances of acquisition, such as those based on power relations, as in the case of tax farming or the sale of offices.

Each individual operation undertaken by a rational profit-making enterprise is oriented to estimated profitability by means of calculation. In the case of profit-making activities on the market, capital accounting



requires: (1) that there exist, subject to estimate beforehand, adequately extensive and assured opportunities for sale of the goods which the enterprise procures; that is, normally, a high degree of marketability; (2) that the means of carrying on the enterprise, such as the potential means of production and the services of labor, are also available in the market at costs which can be estimated with an adequate degree of certainty; and finally, (3) that the technical and legal conditions, to which the process from the acquisition of the means of production to final sale, including transport, manufacturing operations, storage, etc., is subjected, give rise to money costs which in principle are calculable.

The extraordinary importance of the highest possible degree of calculability as the basis for efficient capital accounting will be noted time and again throughout the discussion of the sociological conditions of economic activity. It is far from the case that only economic factors are important to it. On the contrary, it will be shown that the most varied sorts of external and subjective barriers account for the fact that capital accounting has arisen as a basic form of economic calculation only in the Western World.

As distinguished from the calculations appropriate to a budgetary unit, the capital accounting and calculations of the market entrepreneur are oriented not to marginal utility, but to profitability. To be sure, the probabilities of profit are in the last analysis dependent on the income of consumption units and, through this, on the marginal utility structure of the disposable money incomes of the final consumers of consumption goods. As it is usually put, it depends on their "purchasing power" for the relevant commodities. But from a technical point of view, the accounting calculations of a profit-making enterprise and of a consumption unit differ as fundamentally as do the ends of want satisfaction and of profit-making which they serve. For purposes of economic theory, it is the marginal consumer who determines the direction of production. In actual fact, given the actual distribution of power, this is only true in a limited sense for the modern situation. To a large degree, even though the consumer has to be in a position to buy, his wants are "awakened" and "directed" by the entrepreneur.

In a market economy every form of rational calculation, especially of capital accounting, is oriented to expectations of prices and their changes as they are determined by the conflicts of interests in bargaining and competition and the resolution of these conflicts. In profitability-accounting this is made particularly clear in that system of bookkeeping which is (up to now) the most highly developed one from a technical point of view, in the so-called double-entry bookkeeping. Through a system of individual accounts the fiction is here created that different depart-

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ments within an enterprise, or individual accounts, conduct exchange operations with each other, thus permitting a check in the technically most perfect manner on the profitability of each individual step or measure.

Capital accounting in its formally most rational shape thus presupposes the *battle of man with man*. And this in turn involves a further very specific condition. No economic system can directly translate subjective "feelings of need" into effective demand, that is, into demand which needs to be taken into account and satisfied through the production of goods. For whether or not a subjective want can be satisfied depends, on the one hand, on its place in the scale of relative urgency; on the other hand, on the goods which are estimated to be actually or potentially available for its satisfaction. Satisfaction does not take place if the utilities needed for it are applied to other more urgent uses, or if they either cannot be procured at all, or only by such sacrifices of labor and goods that future wants, which are still, from a present point of view, adjudged more urgent, could not be satisfied. This is true of consumption in every kind of economic system, including a communist one.

In an economy which makes use of capital accounting and which is thus characterized by the appropriation of the means of production by individual units, that is by "property" (see ch. I, sec. 10), profitability depends on the prices which the "consumers," according to the marginal utility of money in relation to their income, can and will pay. It is possible to produce profitably only for those consumers who, in these terms, have sufficient income. A need may fail to be satisfied not only when an individual's own demand for other goods takes precedence, but also when the greater purchasing power of others for *all* types of goods prevails. Thus the fact that the battle of man against man on the market is an essential condition for the existence of rational money-accounting further implies that the outcome of the economic process is decisively influenced by the ability of persons who are more plentifully supplied with money to outbid the others, and of those more favorably situated for production to underbid their rivals on the selling side. The latter are particularly those well supplied with goods essential to production or with money. In particular, rational money-accounting presupposes the existence of effective prices and not merely of fictitious prices conventionally employed for technical accounting purposes. This, in turn, presupposes money functioning as an effective medium of exchange, which is in demand as such, not mere tokens used as purely technical accounting units.<sup>17</sup> Thus the orientation of action to money prices and to profit has the following consequences: (1) that the differences in the distribution of money or marketable goods between the individual parties in the market is de-



cisive in determining the direction taken by the production of goods, so far as it is carried on by profit-making enterprises, in that it is only demand made effective through the possession of purchasing power which is and can be satisfied. Further, (2) the question, what type of demand is to be satisfied by the production of goods, becomes in turn dependent on the profitability of production itself. Profitability is indeed *formally* a rational category, but for that very reason it is indifferent with respect to *substantive* postulates unless these can make themselves felt in the market in the form of sufficient purchasing power.

"Capital goods," as distinguished from mere possessions or parts of wealth of a budgetary unit, are all such goods as are administered on the basis of capital accounting. "Capital interest," as distinct from various other possible kinds of interest on loans, is: (1) what is estimated to be the minimum normal profitability of the use of material means of profit-making; (2) the rate of interest at which profit-making enterprises can obtain money or capital goods.

This exposition only repeats generally known things in a somewhat more precise form. For the technical aspects of capital accounting, compare the standard textbooks of accountancy, which are, in part, excellent. E.g. those of Leitner, Schär, etc.

1. The concept of capital has been defined strictly with reference to the individual private enterprise and in accordance with private business-accounting practice, which was, indeed, the most convenient method for present purposes. This usage is much less in conflict with everyday speech than with the usage which in the past was frequently found in the social sciences and which has by no means been consistent. In order to test the usefulness of the present business-accounting term, which is now being increasingly employed in scientific writings again, it is necessary only to ask the following questions: (1) What does it mean when we say that a corporation has a "basic capital" (net worth) of one million pounds? And (2), what when we say that capital is "written down"? What, (3), when corporation law prescribes what objects may be "brought in" as capital and in what manner? The first statement means that only that part of a surplus of assets over liabilities, as shown on the balance-sheet after proper inventory control and verification, which *exceeds* one million pounds can be accounted as "profit" and distributed to the share-holders to do with as they please (or, in the case of a one-man enterprise, that only this excess can be consumed in the household). The second statement concerns a situation where there have been heavy business losses, and means that the distribution of profit need not be postponed until perhaps after many years a surplus exceeding one million pounds has again been accumulated, but that the distribution of "profits" may begin at a lower surplus. But in order to do this, it is necessary to "write down" the capital, and this is the purpose of the operation. Finally, the purpose

of prescriptions as to how basic capital (net worth, or ownership) can be "covered" through the bringing into the company of material assets, and how it may be "written up" or "written down," is to give creditors and purchasers of shares the guarantee that the distribution of profits will be carried out "correctly" in accordance with the rules of rational business accounting, i.e., in such a way that (a) long-run profitability is maintained and, (b), that the security of creditors is not impaired. The rules about "bringing in" are all concerned with the admissibility and valuation of objects as paid-in capital. (4) What does it mean when we say that as a result of unprofitability capital "seeks different investments"? Either we are talking about "wealth," for "investment" (*Anlegen*) is a category of the administration of wealth, not of profit-making enterprise. Or else, more rarely, it may mean that real capital goods on the one hand have ceased to be such by being sold, for instance as scrap or junk, and on the other have regained that quality in other uses. (5) What is meant when we speak of the "power of capital"? We mean that the possessors of control over the means of production and over economic advantages which can be used as capital goods in a profit-making enterprise enjoy, by virtue of this control and of the orientation of economic action to the principles of capitalistic business calculation, a specific position of power in relation to others.

In the earliest beginnings of rational profit-making activity capital appears, though not under this name, and only as a sum of money used in accounting. Thus in the *commenda* relationship various types of goods were entrusted to a travelling merchant to sell in a foreign market and at times for the purchase of other goods wanted for sale at home. The profit or loss was then divided in a particular proportion between the travelling merchant and the entrepreneur who had advanced the capital. For for this to take place it was necessary to value the goods in money; that is, to strike balances at the beginning and the conclusion of the venture. The "capital" of the *commenda* or the *societas maris* was simply this money valuation, which served only the purpose of settling accounts between the parties and no other.

What do we mean by the term "capital market"? We mean that certain "goods," including in particular money, are in demand in order to be used as capital goods, and that there exist profit-making enterprises, especially certain types of "banks," which derive their profit from the business of providing these goods. In the case of so-called "loan capital," which consists in handing over money against a promise to return the same amount at a later time with or without the addition of interest, the term "capital" will be used only if lending is the object of a profit-making enterprise. Otherwise, the term "money loans" will be used. Everyday speech tends to talk about "capital" whenever "interest" is paid, because the latter is usually expressed as a percentage of the basic sum; only because of this calculatory function is the amount of a loan or a deposit called a "capital." It is true, of course, that this was the origin of the term: *capitale* was the principal sum of a loan; the term is said,



though it cannot be proved, to derive from the heads counted in a loan of cattle. But this is irrelevant. Even in very early times a loan of real goods was reckoned in money terms, on which basic interest was then calculated, so that already here capital goods and capital accounting are typically related, as has been true in later times. In the case of an ordinary loan, which is made simply as a phase in the administration of budgetary wealth and so far as it is employed for the needs of a budgetary unit, the term "loan capital" will not be used. The same, of course, applies to the recipient of the loan.

The concept of an "enterprise" is in accord with the ordinary usage, except for the fact that the orientation to capital accounting, which is usually taken for granted, is made explicit. This is done in order to emphasize that not every case of search for profit as such constitutes an "enterprise," but only when it is capable of orientation to capital accounting, regardless of whether it is on a large or a small scale. At the same time it is indifferent whether this capital accounting is in fact rationally carried out according to rational principles. Similarly the terms "profit" and "loss" will be used only as applying to enterprises oriented to capital accounting. The money earned without the use of capital by such persons as authors, physicians, lawyers, civil servants, professors, clerks, technicians, or workers, naturally is also "acquisition" (*Erwerb*), but shall here not be called "profit." Even everyday usage would not call it profit. "Profitability" is a concept which is applicable to every discrete act which can be individually evaluated in terms of business accounting technique with respect to profit and loss, such as the employment of a particular worker, the purchase of a new machine, the determination of rest periods in the working day, etc.

It is not expedient in defining the concept of interest on capital to start with contracted interest returns on any type of loan. If somebody helps out a peasant by giving him seed and demands an increment on its return, or if the same is done in the case of money loaned to a household to be returned with interest, we would hardly want to call this a "capitalistic" process. It is possible, where action is rational, for the lender to secure an additional amount because his creditor is in a position to expect benefits from the use of the loan greater than the amount of the interest he pays; when, that is, the situation is seen in terms of what it would be if he had to do without the loan. Similarly, the lender, being aware of the situation, is in a position to exploit it, in that for him the marginal utility of his present control over the goods he lends is exceeded by the marginal utility at the relevant future time of the repayment with the addition of the interest. These are essentially categories of the administration of budgetary units and their wealth, not of capital accounting. Even a person who secures an emergency loan for his urgent personal needs from a "Shylock" is not for purposes of the present discussion said to be paying interest on capital, nor does the lender receive such interest. It is rather a case of return for the loan. The person who makes a business of lending charges *himself* interest on

his business capital if he acts rationally, and must consider that he has suffered a "loss" if the returns from loans do not cover this rate of profitability. This interest we will consider "interest on capital"; the former is simply "interest." Thus for the present terminological purposes, interest on capital is always that which is calculated *on* capital, not that which is a payment *for* capital. It is always oriented to money valuations, and thus to the sociological fact that disposal over profit-making means, whether through the market or not, is in private hands; that is, appropriated. Without this, capital accounting, and thus calculation of interest, would be unthinkable.

In a rational profit-making enterprise, the interest, which is charged on the books to a capital sum, is the minimum of profitability. It is in terms of whether or not this minimum is reached that a judgment of the advisability of this particular mode of use of capital goods is arrived at. Advisability in this context is naturally conceived from the point of view of profitability. The rate for this minimum profitability is, it is well known, only approximately that which it is possible to obtain by giving credit on the capital market at the time. But nevertheless, the existence of the capital market is the reason why calculations are made on this basis, just as the existence of market exchange is the basis for making entries against the different accounts. It is one of the fundamental phenomena of a capitalistic economy that entrepreneurs are permanently willing to pay interest for loan capital. This phenomenon can only be explained by understanding how it is that the average entrepreneur may hope in the long run to earn a profit, or that entrepreneurs on the average in fact do earn it, over and above what they have to pay as interest on loan capital—that is, under what conditions it is, on the average, rational to exchange 100 at the present against 100 *plus* X in the future.

Economic theory approaches this problem in terms of the relative marginal utilities of goods under present and under future control. So far, so good. But the sociologist would then like to know in what human actions this supposed relation is reflected in such a manner that the actors can take the consequences of this differential valuation [of present and future goods], in the form of an "interest rate," as a criterion for their own operations. For it is by no means obvious that this should happen at all times and places. It does indeed happen, as we know, in profit-making economic units. But here the primary cause is the economic power distribution (*Machtverteilung*) between profit-making enterprises and budgetary units (households), both those consuming the goods offered and those offering certain means of production (mainly labor). Profit-making enterprises will be founded and operated continuously (capitalistically) *only if* it is expected that the minimum rate of interest on capital can be earned. Economic theory—which could, however, also be developed along very different lines—might then very well say that this exploitation of the power distribution (which itself is a consequence of the institution of private property in goods and the

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means of production) permits it only to this particular class of economic actors to conduct their operations in accordance with the "interest" criterion.

2. The administration of budgetary "wealth" and profit-making enterprises may be outwardly so similar as to appear identical. They are in fact in the analysis only distinguishable in terms of the difference in *meaningful* orientation of the corresponding economic activities. In the one case, it is oriented to maintaining and improving profitability and the market position of the enterprise; in the other, to the security and increase of wealth and income. It is, however, by no means necessary that this fundamental orientation should always, in a concrete case, be turned exclusively in one direction or the other; sometimes, indeed, this is impossible. In cases where the private wealth of an entrepreneur is identical with this business control over the means of production of his firm and his private income is identical with the profit of the business, the two things seem to go entirely hand in hand. But all manner of personal considerations may in such a case cause the entrepreneur to enter upon business policies which, in terms of the rationality of the conduct of enterprise, are irrational. Yet very generally private wealth and control of the business are not identical. Furthermore, such factors as personal indebtedness of the proprietor, his personal demand for a higher present income, division of an inheritance, and the like, often exert what is, in terms of business considerations, a highly irrational influence on the business. Such situations often lead to measures intended to eliminate these influences altogether, as in the incorporation of family businesses.

The tendency to separate the sphere of private affairs from the business is thus not fortuitous. It is a consequence of the fact that, from the point of view of business interest, the interest in maintaining the private wealth of the owner is often irrational, as is his interest in income receipts at any given time from the point of view of the profitability of the enterprise. Considerations relevant to the profitability of a business are also not identical with those governing the private interests of persons who are related to it as workers or as consumers. Conversely, the interests growing out of the private fortunes and income of persons or organizations having powers of control over an enterprise do not necessarily lie in the same direction as the long-run considerations of optimizing its profitability and its market power position. This is definitely, even especially, also true when a profit-making enterprise is controlled by a producers' co-operative association. The objective interests of rational management of a business enterprise and the personal interest of the individuals who control it are by no means identical and are often opposed. This fact implies the separation as a matter of principle of the budgetary unit and the enterprise, even where both, with respect to powers of control and the objects controlled, are identical.

The sharp distinction between the budgetary unit and the profit-making enterprise should also be clearly brought out in the terminology. The purchase of securities on the part of a private investor who wishes

to consume the proceeds is not a "capital-investment," but a "wealth-investment." A money loan made by a private individual for obtaining the interest is, when regarded from the standpoint of the lender, entirely different from one made by a bank to the same borrower. On the other hand, a loan made to a consumer and one to an entrepreneur for business purposes are quite different from the point of view of the borrower. The bank is investing *capital* and the entrepreneur is borrowing *capital*; but in the first case, it may be for the borrower a matter simply of borrowing for purposes of budgetary management; in the second it may be, for the lender, a case of investment of private *wealth*. This distinction between private wealth and capital, between the budgetary unit and the profit-making enterprise, is of far-reaching importance. In particular, without it it is impossible to understand the economic development of the ancient world and the limitations on the development of the capitalism of those times. (The well-known articles of Rodbertus are, in spite of their errors and incompleteness, still important in this context, but should be supplemented by the excellent discussion of Karl Bücher.)<sup>18</sup>

3. By no means all profit-making enterprises with capital accounting are doubly oriented to the market in that they both purchase means of production on the market and sell their product or final services there. Tax farming and all sorts of financial operations have been carried on with capital accounting, but without selling any products. The very important consequences of this will be discussed later. It is a case of capitalistic profit-making which is not oriented to the market.

4. For reasons of convenience, acquisitive activity (*Erwerbstätigkeit*) and profit-making enterprise (*Erwerbsbetrieb*) have been distinguished. Anyone is engaged in acquisitive activity so far as he seeks, among other things, in given ways to acquire goods—money or others—which he does not yet possess. This includes the civil servant and the worker, no less than the entrepreneur. But the term "profit-making enterprise" will be confined to those types of acquisitive activity which are continually oriented to market advantages, using goods as means to secure profit, either (a) through the production and sale of goods in demand, or (b) through the offer of services in demand in exchange for money, be it through free exchange or through the exploitation of appropriated advantages, as has been pointed out above under (3). The person who is a mere rentier or investor of private wealth is, in the present terminology, not engaged in profit-making, no matter how rationally he administers his resources.

5. It goes without saying that in terms of *economic* theory the direction in which goods can be profitably produced by profit-making enterprises is determined by the marginal utilities for the last consumers in conjunction with the latter's incomes. But from a *sociological* point of view it should not be forgotten that, to a large extent, in a capitalistic economy (a) new wants are created and others allowed to disappear and (b) capitalistic enterprises, through their aggressive advertising policies,



exercise an important influence on the demand functions of consumers. Indeed, these are essential traits of a capitalistic economy. It is true that this applies primarily to wants which are not of the highest degree of necessity, but even types of food provision and housing are importantly determined by the producers in a capitalistic economy.

## 12. Calculations in Kind

Calculations in kind can occur in the most varied form. We speak of a "money economy," meaning an economy where the use of money is typical and where action is typically oriented to market situations in terms of money prices. The term "natural economy" (*Naturalwirtschaft*), on the other hand, means an economy where money is not used. The different economic systems known to history can be classified according to the degree to which they approximate the one or the other.

The concept "natural economy" is not, however, very definite, since it can cover systems with widely varying structures. It may mean (a) an economy where no exchange at all takes place or (b) one where exchange is only by barter, and thus money is not used as a medium of exchange. The first type may be an individual economic unit organized on a completely communistic basis, or with some determinate distribution of rights of participation. In both cases, there would be a complete lack of autonomy or autocephaly of the component parts. This may be called a "closed household economy." Or, secondly, it may be a combination of otherwise autonomous and autocephalous individual units, all of which, however, are obligated to make contributions in kind to a central organization which exists for the exercise of authority or as a communal institution. This is an "economy based on payments in kind" (*oikos* economy, "liturgically" organized political group). In both cases, so far as the pure type is conformed to, there is only calculation in kind.

In the second case, type (b), where exchange is involved, there may be natural economies where exchange is only by barter without either the use of money or calculation in money terms. Or there may be economies where there is exchange in kind, but where calculation is occasionally or even typically carried out in money terms. This was typical of the Orient in ancient times and has been common everywhere.

For the purposes of analysing calculation in kind, it is only the cases of type (a) which are of interest, where the unit is either completely self-sufficient, or the liturgies are produced in rationally organized permanent units, such as would be inevitable in attempting to employ modern technology in a completely "socialized" economy.

Calculation in kind is in its essence oriented to consumption, the satisfaction of wants. It is, of course, quite possible to have something analogous to profit-making on this basis. This may occur (a) in that, without resort to exchange, available material means of production and labor are systematically applied to the production and transportation of goods on the basis of calculations, according to which the state of want satisfaction thus attained is compared with the state which would exist without these measures or if the resources were used in another way, and thus a judgment as to the most advantageous procedure is arrived at. Or (b) in a barter economy, goods may be disposed of and acquired by exchange, perhaps in systematically repeated barter, though strictly without the use of money. Such action would be systematically oriented to securing a supply of goods which, as compared with the state which would exist without these measures, is judged to establish a more adequate provision for the needs of the unit. It is, in such cases, only when quantities of goods which are qualitatively similar are compared that it is possible to use numerical terms unambiguously and without a wholly subjective valuation. It is possible, of course, to set up a system of in-kind wages consisting of typical bundles of consumer goods (*Konsum-Deputate*), such as were the in-kind salaries and benefices particularly of the ancient Orient (where they even became objects of exchange transactions, similar to our government bonds). In the case of certain very homogenous commodities, such as the grain of the Nile valley, a system of storage and trade purely in terms of paper claims to certain quantities of the commodity was of course technically just as possible as it is with silver bars under the conditions of *banco*-currencies.<sup>19</sup> What is more important, it is in that case also possible to express the technical efficiency of a process of production in numerical terms and thereby compare it with other types of technical processes. This may be done, if the final product is the same, by comparing the relative requirements of different processes in both the quantity and the type of means of production. Or, where the means of production are the same, the different products which result from different production processes may be compared. It is often, though by no means always, possible in this way to secure numerical comparisons for the purposes of important, though sectorally restricted, problems. But the more difficult problems of calculation begin when it becomes a question of comparing different *kinds* of means of production, their different possible modes of use, and qualitatively different final products.

Every capitalistic enterprise is, to be sure, continually concerned with calculations in kind. For instance, given a certain type of loom and a certain quality of yarn, it is a question of ascertaining, given certain



whose children are privileged in relation to succession may be distinguished as the "chief wife" in a circle of other wives, as it was the case in the Orient, in Egypt and in most civilized Asian areas. This type of semi-polygamy was of course everywhere a privilege of the propertied strata. The ownership of several wives is lucrative only when women still do most of the agricultural work, at most when their textile production is especially profitable (as is still assumed in the Talmud); for example, the possession of a large number of women is considered a profitable capital investment by the chieftains in Caffraria; this presupposes, of course, that the man has the necessary means to buy women. But polygamy is too costly for all middle-income groups in an economy in which male work predominates, and especially in social strata in which women work only as dilettantes or for luxury needs in jobs considered beneath the dignity of freemen. Monogamy was institutionalized first among the Hellenes (even though the royal families did not consistently adhere to it as late as the period of the Diadochs) and among the Romans; it fitted into the household structure of the emergent urban patriciate. Subsequently Christianity raised monogamy to an absolute norm for ascetic reasons, in contrast to at least the early stages of all other religions. In the main, polygamy persisted in those cases in which the strictly patriarchal structure of political authority helped to preserve the discretion of the household head *monarchs*.

The institution of the dowry affects the development of the household in two ways: (1) As against the children of concubines, the "legitimate" children achieve special legal status as the sole inheritors of the paternal property; (2) the husband's economic position tends to be differentiated according to the wife's dowry, which in turn depends on her family's wealth. It is true that the dowry becomes formally subject to the husband's discretion (especially in Roman law), but in fact it tends to be set aside as a "special account." Thus the calculating spirit enters into the relations between the family members.

However, at this stage other economic motives have usually begun this dissolution of the household. Undifferentiated communism was economically deflected at such an early stage that it existed historically perhaps only in marginal cases. In principle, artifacts such as tools, arms, jewelry and clothes may be used by their producer alone or preferentially, and they are inherited not necessarily by the group but by other qualified individuals. (Examples are riding horse and sword, in the Middle Ages the *Heergewäte*, the *Gerade*, etc.) These incipient forms of the individual right to succession developed very early even under authoritarian house communism; however, their beginnings probably antecede the household itself and are found wherever tools are produced by individ-

uals. In the case of arms, the same development was probably owing to the intervention of military powers interested in equipping the most able-bodied men.

## 2. *The Disintegration of the Household: The Rise of the Calculative Spirit and of the Modern Capitalist Enterprise*

In the course of cultural development, the internal and external determinants of the weakening of household authority gain ascendancy. Operating from within, and correlated with the quantitative growth of economic means and resources, is the development and differentiation of abilities and wants. With the multiplication of life chances and opportunities, the individual becomes less and less content with being bound to rigid and undifferentiated forms of life prescribed by the group. Increasingly he desires to shape his life as an individual and to enjoy the fruits of his own abilities and labor as he himself wishes.

The disintegration of the household authority is furthered by a number of other groups. One factor is the fiscal interest in a more intensive exploitation of the individual taxpayer. These groups may work contrary to the household's interests in keeping property intact for the sake of military self-equipment. The usual consequence of these disintegrative tendencies is, in the first place, the increasing likelihood of division in case of inheritance or marriage of children. In the early times of relatively primitive agriculture, employment of mass labor was the only means of increasing land yields. As a result, the household grew in size. However, the development of individualized production brought about a decrease in the size of households, which continued until the family of parents and children constitutes the norm today.

The function of the household has changed so radically that it is becoming increasingly inopportune for an individual to join a large communistic household. An individual no longer gets protection from the household and kinship groups but rather from political authority, which exercises compulsory jurisdiction. Furthermore, household and occupation become ecologically separated, and the household is no longer a unit of common production but of common consumption. Moreover, the individual receives his entire education increasingly from outside his home and by means which are supplied by various enterprises: schools, bookstores, theaters, concert halls, clubs, meetings, etc. He can no longer regard the household as the bearer of those cultural values in whose service he places himself.



This decrease in the size of households is not due to a growing "subjectivism," understood as a stage of social psychological development, but to the *objective* determinants of its growth. It should not be overlooked that there exist also hindrances to this development, particularly on the highest levels of the economic scale. In agriculture, the possibility of unrestricted splitting up of landed estates is tied in with certain technological conditions. An integrated estate, even a large one, with valuable buildings on it, can be partitioned only at a loss. The division is technically facilitated by mixed holdings and village settlement. Isolated location makes such a partition difficult. Separate farms and large estates, operated with an intensive expenditure of capital, therefore tend to be inherited by one individual. A small farm, operated with intensive expenditure of labor on scattered holdings, has a tendency to continuous splintering. In addition, the separate farm and large estate are much more suitable objects from which to extract payments in favor of movable property [i.e., money lenders] in the form of permanent or long-term mortgages, and they are thus kept intact for the benefit of the creditors.

Large property-holding, being a determinant of position and prestige, is conducive to the desire to keep it intact in the family. A small farm, on the other hand, is merely a place where work is done. There is an appositeness between the seigneurial standard of life, with its fixed conventions, and the large household. Given the spaciousness of, say, a castle and the almost inevitable "inner distance" even between the closest relatives, these large households do not restrain the freedom that the individual demands to such an extent as does the middle-class household, which may consist of an equally large number of persons but occupies a smaller space and lacks the aristocratic sense of distance, and whose members, moreover, typically have far more differentiated life interests than do those of an estate-seated gentry family. Today, the large household provides an appropriate way of life, aside from the seigneurial one, only for the highly intense ideological community of a sect, whether religious, social-ethical or artistic—corresponding to the monasteries and the cloister-like communities of the past.

Even where the household unit remains outwardly intact, the internal dissolution of household communism by virtue of the growing sense of calculation (*Rechenhaftigkeit*) goes on irresistibly in the course of cultural development. Let us look at the consequences of this factor in somewhat greater detail.

As early as in the large capitalistic households of medieval cities—for example, in Florence—every person had his own account. He has pocket money (*danari borsinghi*) at his disposal. Specific limits are set for certain expenditures—for example, if he invites a visitor for a stay. The member must settle his account in the same way as do partners in

any modern trading company. He has capital shares "in" the house and [separate "outside"] wealth (*fuori della compagnia*) which the house controls and for which it pays him interest, but which is not regarded as working capital proper and therefore does not share in the profit.<sup>3</sup> Thus, a rational association takes the place of the "natural" participation in the household's social action with its advantages and obligations. The individual is born into the household, but even as a child he is already a potential business partner of the rationally managed enterprise. It is evident that such conduct became possible only within the framework of a money economy, which therefore plays a crucial role in the internal dissolution of the household. The money economy makes possible an objective calculation both of the productive performances and of the consumption of the individuals, and for the first time makes it possible for them to satisfy their wants freely, through the indirect exchange medium of money.

The parallelism of money economy and attenuation of household authority is, of course, far from complete. Domestic authority and household are relatively independent of economic conditions, in spite of the latter's great importance, and appear "irrational" from an economic point of view; in fact, they often shape economic relationships because of their own historic structure. For example, the *patria potestas*, which the head of a Roman family retained until the end of his life, had economic and social as well as political and religious roots (the preservation of a patrician household, military affiliation according to kinship and, probably, house, and the father's position as house priest). The *patria potestas* persisted during the most diverse economic stages before it was finally attenuated under the Empire, even toward the children. In China, the same situation was perpetuated by the principle of filial piety, which was carried to an extreme by the code of duties and furthered by the state and the bureaucratic status ethic of Confucianism, in part for reasons of political domestication. This principle led not only to economically untenable consequences (as in the mourning regulations) but also to politically questionable results (for example, large-scale office vacancies, because piety toward the late father—originally, fear of the dead man's envy—forbade the use of his property and the occupation of his office).

Economic factors originally determined to a large extent whether a property was inherited by one person or principal heir or whether it was divided. This practice varies with economic influences, but it cannot be explained solely by economic factors, and especially not by modern economic conditions. This was demonstrated particularly in the recent studies of Sering and others.<sup>4</sup> Under identical conditions and in contiguous areas, there exist often quite disparate systems, affected especially by different ethnic composition, e.g., Poles and Germans. The far-



reaching economic consequences of these differing structures were caused by factors that could be regarded as economically "irrational" from the very beginning, or that became irrational as a consequence of changes in economic conditions.

In spite of all, the economic realities intervene in a compelling manner. First, there are characteristic differences depending on whether economic gain is attributed to common work or to common property. If the former situation obtains, the household authority is usually basically unstable, no matter how autocratic it may be. Mere separation from the parental household and the establishment of an independent household is sufficient for a person to be set free from the household authority. This is mostly the case in the large households of primitive agricultural peoples. The *emancipatio legis Saxonicae* of the German law clearly has its economic foundation in the importance of personal labor, which prevailed at the time.

On the other hand, the household authority is typically stable wherever ownership of livestock, and property in general, forms the prime economic basis. This is particularly true when land ceases to be abundant and becomes a scarce commodity. For reasons already alluded to, family and lineage cohesion is generally an attribute of the landed aristocracy. The man without any landed property or with only little of it is also without lineage group.

The same difference is to be found in the capitalistic stage of development. The large households of Florence and other parts of northern Italy practiced the principle of joint responsibility and of maintaining the property intact. In the trading places of the Mediterranean, especially in Sicily and southern Italy, the exact opposite was the case: each adult member of the household could at any time request his share while the legator was still alive. Nor did joint personal liability to the outsiders exist. In the family enterprises of northern Italy, the inherited capital represented the basis of economic power to a greater degree than did the personal business activities of the partners. The opposite was true in southern Italy, where common property was treated as a product of common work. With the increasing importance of capital, the former practice gained ascendancy. In this case, the capitalist economy, a "later" stage in terms of a theory of development starting with undifferentiated social action, determines a theoretically "earlier" structure in which the household members are more tightly bound to the household and subjected to household authority.

However, at the same time a far more significant, and *uniquely Occidental*, transformation of domestic authority and household was under way in these Florentine and other business-oriented medieval houses.

2 ] Disintegration of the Household by ...  
The entire economic arrangements of such large households were periodically regulated by *contract*. Whereas, originally, the personal funds and the business organization were regulated by the same set of rules, the situation gradually changed. Continuous capitalist acquisition became a special vocation performed in an increasingly separate enterprise. An autonomous rational association emerged out of the social action of the household, in such a way that the old identity of household, workshop and office fell apart, which had been taken for granted in the undifferentiated household as well as the ancient *oikos*, to be discussed in the next section. First, the household ceased to exist as a necessary basis of rational business association. Henceforth, the partner was not necessarily—or typically—a house member. Consequently, business assets had to be separated from the private property of the partners. Similarly, a distinction began to be made between the business employees and the domestic servants. Above all, the commercial debts had to be distinguished from the private debts of the partners, and joint responsibility had to be limited to the former, which were identified as such by being contracted under the "firm," the business name.

This whole development is obviously a precise parallel to the separation of the bureaucratic office as a "vocation" from private life, the "bureau" from the private household, the official assets and liabilities from private property, and the official dealings from private dealings; this will be discussed in the analysis of authority [chapter XI]. The capitalist enterprise, created by the household which eventually retreats from it, thus is related from the very beginning to the "bureau" and the now obvious bureaucratization of the private economy.

But the factor of decisive importance in this development is not the spatial differentiation or separation of the household from the workshop and the store. This is rather typical of the bazaar system of the Islamic cities in the Orient, which rests throughout on the separation of the castle (*kasbah*), bazaar (*suk*), and residences. What is crucial is the separation of household and business for accounting and legal purposes, and the development of a suitable body of laws, such as the commercial register, elimination of dependence of the association and the firm upon the family, separate property of the private firm or limited partnership, and appropriate laws on bankruptcy. This fundamentally important development is the characteristic feature of the Occident, and it is worthy of note that the legal forms of our present commercial law were almost all developed as early as the Middle Ages—whereas they were almost entirely foreign to the law of Antiquity with its capitalism that was quantitatively sometimes much more developed. This is one of the many phenomena characterizing most clearly the qualitative uniqueness of the



development of modern capitalism, since both the concentration of the family property for the purpose of mutual economic support and the development of a "firm" from a family name existed, for example, in China as well. There, too, the joint liability of the family stands behind the debts of the individual. The name used by a company in commercial transactions does not provide information about the actual proprietor: there, too, the "firm" is related to the business organization and not to the household. But the laws on private property and bankruptcy as they were developed in Europe seem to be absent in China, where two things are of special relevance: Association and credit, until the modern era, were to a large degree dependent on the kinship group. Likewise, the keeping of the property intact in the well-to-do kinship groups and the mutual granting of credit within the kinship groups served different purposes. They were concerned not with capitalistic profit but with raising money to cover the costs of family members' preparation for the examinations and afterwards for the purchase of an office. The incumbency of the office then offered the relatives an opportunity to recover their expenses with a profit from the legal and illegal revenues that the office afforded. Furthermore, these relatives could benefit from the protection of the office-holder. It was the chances of the politically rather than economically determined gain that were conducive to the "capitalistic" cohesion of the family, especially one that was well-off economically.

The capitalistic type of association which corresponds to our joint-stock company and is completely detached, at least formally, from kinship and personal ties has its antecedents in Antiquity only in the area of politically oriented capitalism, i.e., in companies of tax-farmers. In the Middle Ages, such associations were also organized in part for colonizing ventures—such as the big partnerships of the *maone* in Genoa—and in part for state credit—such as the Genoese group of creditors which for all practical purposes held the municipal finances under sequester. In the realm of private enterprise, a purely commercial and capitalistic type of association initially developed only in the form of *ad hoc* groupings in long-distance trade, such as the *commenda* association which can be found already in Old Babylonian law and later quite universally: A financier entrusts his capital to a travelling merchant for a concrete voyage, with profit or loss distribution on this basis. This is the form typical for the period of "intermittent trade" (*Gelegenheitshandel*). Enterprises in the form of joint-stock corporations which were monopolistically privileged by the political powers, especially colonial undertakings, constituted the transition to the application of such organizational types also in purely private business.

### 3. The Alternative Development: The Oikos

These kinds of undertakings which, as the basis of a capitalist enterprise, constitute its most radical separation from the original identity with the household do not particularly concern us at this point. Rather, we shall turn to a radically different way in which a household may evolve. The disintegration of the household and of domestic authority because of exchange with the outside, and the resulting rise of the capitalist enterprise proceed in juxtaposition to the household's internal evolution into an *oikos*, as Rodbertus called it.<sup>5</sup> This is not simply any large household or one which produces on its own various products, agricultural or industrial; rather, it is the authoritarian household of a prince, manorial lord or patrician. Its dominant motive is not capitalistic acquisition but the lord's organized want satisfaction in kind. For this purpose, he may resort to any means, including large-scale trade. Decisive for him is the utilization of property, not capital investment. The essence of the *oikos* is organized want satisfaction, even if market-oriented enterprises are attached to it. Of course, there is a scale of imperceptible transitions between the two modes of economic orientation, and often also a more or less rapid transformation from one into the other. In reality, if there is a relatively developed technology, the *oikos* is rarely a purely collective natural economy; for it can exist purely only if it permanently eliminates all exchange, and practices, or at least aims at, autarky, hence if it is a self-sufficient economy so far as possible. In this case an apparatus of house-dependent labor, which often is highly specialized, produces all the goods and personal services, economic, military and sacral, which the ruler requires. His own land provides the raw materials, his workshops with their personally unfree labor supply all other materials. The remaining services are provided by servants, officials, house priests and warriors. Exchange takes place only if surplus is to be dumped or if goods simply cannot be procured in any other way. This state of affairs was approximated to a considerable extent by the royal economies of the Orient, especially of Egypt, and to a lesser degree by the households of the Homeric aristocrats and princes; those of the Persian and Frankish kings also appear quite similar. In the Roman empire the landed estates moved increasingly in this direction as they grew in size, the slave supply fell off and capitalist acquisition was curbed by bureaucracy and liturgy. But the medieval manor took the opposite course with the increasing importance of trade, the cities and the money economy. However, in all these cases the *oikos* was never really self-sufficient. The Pharaoh engaged in foreign trade just as did the majority of the early princes and aristocrats of the Mediterranean; their treasuries depended heavily upon