Jürgen Kocka

CAPITALISM

A Short History

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Preface to the English Edition

Capitalism is an essential concept for understanding modernity. By the same token, its histor can serve as a key for explaining the most important socio-economic changes of the pas Debates about capitalism lead into discussions about the most pressing problems of th present time, ranging from globalization, the war against poverty, and climate chang through growing social inequality, to the prospects for progress and its human costs. At th same time, as a concept of historical synthesis capitalism is unsurpassed, bringing togethe the economic, social, cultural, and political dimensions of the past.

Capitalism is at once a tool of scholarly insight and of social critique. This dual functio has made it suspicious to some but all the more interesting to others. Both functions coul but need not, stand in each other's way. Over the last several decades, the concept has mac a forceful comeback in both public discussions and the social sciences.

But the concept remains controversial. It is still too frequently the ill-defined compone of a one-sided narrative. It can be mythologized and distorted. Ardent simplifications abour among capitalism's critics and defenders alike.

This book offers a concise overview of the genesis and controversial development of th concept, and of the history of capitalism from antiquity to the present time. It distinguish among different types of capitalism, especially among merchant capitalism, plantatio capitalism, industrial capitalism, and finance capitalism. It discusses capitalism as an engi of innovation and growth, but also as a source of crisis, exploitation, and alienation. Whi the capitalist record of the West takes center stage, its global dimensions and expansion a carefully reconstructed, too. Central topics include "work in capitalism," "market and state as well as "financialization." The book also deals with capitalism and its critique as a topic intellectual history and of religious thought.

It is emphasized that capitalism has been highly transmutable over time, that it ha flourished under very different social and political conditions, and that it can be shaped b politics and society. In this respect, the critique of capitalism has been and continues to be outmost importance.

This introduction to the history of capitalism first appeared in German. For this edition has been thoroughly revised, updated, and supplemented so as to make it more accessible a relevant for English-speaking readers.

Jürgen Kocka
Berlin, August 2015

Capitalism

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What Does Capitalism Mean?

The Emergence of a Controversial Concept

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

On the other hand, there is a long line of serious-minded scholars in the social scienc and cultural studies who have contributed a great deal of substance to the discussion abo capitalism. A quarter century after the end of the Cold War, which was also a war of words which key concepts were weapons, the term has returned to the scholarly discourse with vengeance. The international financial and debt crisis that started in 2008 has added fuel the fire of critical interest in capitalism. We are witnessing a new boom in course offerin about the history of capitalism on American college campuses, and the number of books ar articles with "capitalism" in the title is on the rise. In Europe, too, the concept is now mo newsworthy than it has been in a long while, even if its renewed topicality is more noticeab among journalists, social scientists, and cultural studies scholars than with economists.[1] But the term is going to be used, one should be familiar with its history and define it sharply.

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

Since the seventeenth century, "capitalist" stood for the "capital-rich man who has cas monies and great wealth and can live from his interest and rents" (1756). More specificall those designated as "capitalists" include merchants, bankers, pensioners, and other perso who lend money and thus "broker or deal in capital" (1717). In the meantime, "capitalis also stood for all those engaged in the acquisition of wealth "if they accumulate the surplus their labor, their earnings, over and above their required consumption, in order to use th surplus anew toward production and labor" (1813). Starting in the late eighteenth centur moreover, capitalists were increasingly viewed in contrast, and soon in outright oppositio to workers, and as the "class of wage masters (merchant-employers, factory entrepreneur and merchants)" who did not live off wages or rents but from profits (1808). Imbuing th concept with connotations of a class society, something already in evidence early in th nineteenth century, intensified in the ensuing decades as public poverty grew, revolutionar tensions erupted in 1848–1849, and industrialization with its factory system and wage labo also caught on in continental Europe, while observers, well into the early nineteenth centur drew their illustrative material above all from England, the country that had pioneere capitalist industrialization.[2]

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

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

In 1902 Werner Sombart's great work *Modern Capitalism* was published, a book th contributed decisively to making the term part of the vernacular. Subsequent to this, ther was a rapid expansion of the social science and historical literature that dealt with the theor history, and present state of capitalism, to a great extent in debate with Sombart. Althoug Sombart viewed his book as a continuation and completion of Marx's work, in fact i emphasis on the role of entrepreneurs and enterprises, his concept of the “capitalist spirit and his perspective reaching back into the Italian High Middle Ages went well beyond Marx.

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

The history of the concept in the United States paralleled that of Great Britain, thoug there is evidence that the term was known to radical working-class circles before journalis and scholars adopted it. Among American writers, Thorstein Veblen was one of the first t use it in his 1914 book *The Instinct of Workmanship and the State of Industrial Arts*. He followe European authors in stressing that capitalism was much older than industrialization, growin out of the handicraft system, trade, and finance from the fifteenth and sixteenth centurie But he emphasized that “its highest development comes with the advanced stages of th machine technology and is manifestly conditioned by the latter.”[6]

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

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

Three Classics: Marx, Weber, and Schumpeter

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

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

1. Marx saw the *market*, which presumed a division of labor and money economy, as a central component of capitalism. He emphasized how a merciless, cross-border competition spurred technological and organizational progress while simultaneously positioning market players against each other. He brought out the *compulsive characte* of the “law” of the market, a law capitalists and workers, producers and consumers, sellers and buyers had to obey on penalty of failure, no matter what their individual motives might be.
2. Marx discussed at length capitalism’s essentially unlimited *accumulation* as one of its distinguishing features, that is, the formation and continuous increase of capital more or less as an end in itself, initially as “original accumulation” owing to transfers from other sectors (not without expropriation and not without force), then later as the reinvestment of profits, but ultimately derived from the value that labor created: capital as congealed labor.
3. Marx saw the core of the capitalist mode of production in the tension between capitalists as owners of the means of production, along with the entrepreneurs and managers dependent on these owners, on the one hand, and workers, contractually bound but otherwise freely employed in return for wages and salaries without ownership of the means of production, on the other. Both sides were bound to each other, by an exchange relationship (labor power or service against wages or salary, labor or labor power as commodity) and by a relationship of dominance and dependency that enabled the “exploitation” of workers by capitalists: exploitation in the sense that a portion of value earned by workers, so-called surplus value, was not made available or paid out to them. This portion passed into the possession of the capitalist/entrepreneur, who used it partly to advance accumulation, partly to provid for what he consumed. The *capital–wage labor relationship* understood this way not onl advanced the dynamism of the system. It simultaneously provoked class struggles tha led over the long run to a confrontation between the *bourgeoisie and proletariat* facing each other as irreconcilable adversaries. This was, according to Marx, the preconditic for revolution that, carried by the proletariat, will abolish the system of capitalism ir favor of another, specifically socialist or communist, alternative, though Marx did no enter into any more detailed discussion of this alternative system. With this prediction, which could simultaneously be read as a call for the proletariat to attend to its historical mission, Marx transformed his theoretical conception into a practical political guideline, which is how many also understood it, starting in the late

nineteenth century.

4. Marx described the enormous *dynamism of the capitalist system* that, sustained by the bourgeoisie, was dissolving everything traditional, was on its way to spreading out al over the world, and had not only the drive but also the capacity to extend its logic into noneconomic areas of life. Marx was convinced that the capitalist mode of production had a tendency to shape society, culture, and politics decisively. What the economist Adam Smith had described as *commercial society* and the philosopher Georg Wilhelm Friedrich Hegel had called *bourgeois society*, Marx portrayed as a social formation heavily influenced by the capitalist economy.

This picture of capitalism was critically influenced by the dynamic conditions that Mar and Friedrich Engels were able to observe in the second third of the twentieth century Germany and especially in western Europe. Marx and Engels perceived the industri revolution as an epochal upheaval. They recognized the social dynamite inherent in th burgeoning labor question. They conceptualized capitalism in a way that made it appear ful formed only as *industrial capitalism*, with the factory and wage labor at its core. Marx did n deny the existence of older varieties of capitalism prior to industrialization, yet they were n the subject of his investigations. He was interested in capitalism in its modern, industri form and in its emergence—in England starting with the sixteenth century.

Critiques of the Marxist conception are legion. With good reason, he has been accused having underestimated the civilizing impact of markets while overestimating labor as th only source of newly created value. Marx has also come in for criticism for his lack attention to the importance of knowledge and organization as sources of productivity, h mistaken predictions about the social repercussions of industrial capitalism, and his almo quaintly old-fashioned European mistrust of the market, exchange, and self-interes Nevertheless, Marxist analysis remains an original, fascinating, and fundamental framewor a point of reference to this day for most subsequent interpreters of capitalism, no matter ho much they may criticize Marx.[8]

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

For Weber, capitalist economic action was characterized by competition and exchang orientation to market prices, the deployment of capital, and the search for profit. In h definition, capitalist economic action had to include a modicum of calculation, that i weighing of expected risk, loss, and profit, as well as control over the profitability of th capital deployed. Weber was familiar with different forms of capitalism, such as th politically oriented capitalism and rentier capitalism of ancient Europe, or the "robb capitalism" that was associated since ancient times with wars and pillaging but has also n been absent from the speculation and exploitative businesses of modern finance capitalism Above all, Weber was interested in *modern capitalism*, which was characterized by "forma calculative rationality." He saw these features guaranteed above all by the structure of th capitalist *enterprise*. He emphasized how that enterprise was separated from the priva household of economic agents, and he underlined the purposive rationality systematical built into the enterprise's organization of authority. The systematic purposive rationality the capitalist enterprise included, in Weber's accounting, such elements as the division an coordination of labor, formally free labor by workers who do not own the means production and are subjected to workplace discipline, that is, under the command and contr of entrepreneurs and managers ultimately legitimated by ownership of capital. He elaborate on how effective management of a capitalist enterprise required, on the one hand, markets money, credit, and capital. And, on the other hand, he regarded a specific kind of econom conviction as indispensable. In his judgment, this was not to be equated with unlimite acquisitive greed, but rather called for its "rational tempering," specifically in the form of long-range and calculated readiness to invest and reinvest with the aim of long-ter entrepreneurial success as such. An important source of this "spirit of capitalism" Weber sa in the Calvinist-Puritan ethic beginning in the sixteenth century (in contrast to Werne Sombart, who stressed the role of the Jews in establishing this attitude toward business sinc the Middle Ages).

Weber elaborated theoretically and historically on how capitalism in this sens presupposed a certain differentiation of social reality, which included a subsystem calle *economy*, with relative autonomy, especially vis-à-vis politics: an autonomy that foun concrete expression in freedom of contract and market-related entrepreneurship. On the othe hand, he convincingly demonstrated how much the rise of capitalism across the centuri depended on extra-economic factors—especially on politics and law, on states, their war and their financial needs. And he was convinced that there was a huge "cultural significanc (*Kulturbedeutung*) to capitalism, which asserted its dynamism and its principles in man noneconomic areas of life as well. He emphasized that the kind of fully developed capitalis exhibiting all the features mentioned above was a phenomenon of the modern period. Webe was convinced that *modern capitalism* could only have emerged in the Occident, not lea owing to the type of state formation that occurred here. He was no uncritical admirer modern capitalism. While elaborating its "formal, calculative rationality," he nonethele underscored that the growing economic efficiency this brought did not have to b accompanied by permanent growth in prosperity for every segment of the population. Rathe as Wolfgang Schluchter summarizes Weber's conviction, "capitalist economic action … do not provide for the satisfaction of needs but only for the satisfaction of 'needs with buyin power.'" Here Weber saw a "fundamental and, in the last analysis, unavoidable element … irrationality" at work.

Weber has also come in for a great deal of criticism. His thesis about the connectio between the Puritan Protestant ethic and the spirit of capitalism has repeatedly bee questioned empirically and strongly qualified (and this is even more true of Sombart outmoded emphasis on the Jewish origins of the capitalist spirit). His assessment of wheth non-Western civilizations, such as Islamic societies, were capable of capitalism, was no altogether free of prejudices, and it rested on a state of research that is obviously out of da after a century.[9] Yet his analyses are among the best that have ever been written abo capitalism.

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

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

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

This is also the source of Schumpeter's conviction that credit is so important. For nobod can ever be completely certain about the success of innovations, and that success will only b assured, if ever, in the future. For this reason, and also because the returns innovations brin are only registered (if at all) at some later time, during the cycle's upswing, the entreprene carrying out innovations requires capital in advance, which he contracts as debt in order pay it back with interest later if the project is successful. This connection between credit an the carrying out of innovations was recognized by Schumpeter as a specific feature an foundation of capitalism's dynamic force.[10]

He was convinced that capitalism had brought to not just a small minority but the broa majority of the population a degree of material well-being and personal freedom that wa unique in human history. He also offered a psychological and sociological explanation for th enormous productivity and efficiency of the capitalist economy: this type of econom succeeds partly by awakening and partly by enlisting ever new motifs—such as the ofte illusory hope for enrichment and the all too justified fear of becoming déclassé—and seein to it that extremely capable, ambitious, and energetic people are recruited and retained leadership positions. But in spite of such impressive accomplishments, Schumpeter predicte the decline of capitalism. By expanding its principles into other spheres of life, capitalis would damage the very social preconditions that made it possible. Schumpeter illustrated th with such examples as the social institution of the extended family, which for a long time ha been a source of motivation and energy for capitalist entrepreneurs but was increasing being undermined by forces of instrumental rationality and individualism conducive to th capitalist spirit. Capitalism would fail owing to the unintended consequences of its ow success.[11]

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

Other Voices and a Working Definition

There were many other thinkers who helped sharpen the concept. In the 1920 and 1930 John Maynard Keynes saw the essence of capitalism in its appeal to the "money-making ar money loving instincts of individuals as the main motive force of the economic machine Moods, emotions, and accidents played a major role in capitalism, in his assessment, not ju instrumental rationality and calculability, which were emphasized so strongly by Max Webe Keynes saw "animal spirits" at work, forces he did not merely observe with disconcerte detachment. Rather, he acknowledged them as important driving forces behind the capitali way of doing business, which he was convinced takes place under the pressure of incalculab uncertainty and needs these kinds of explosive charges. This assessment of Keynes—an astut top-flight economist of his time well acquainted with business life—points to the gaps capitalism's instrumental rationality that have to be filled by emotions. The critique finance capitalism, particularly since its most recent crisis, which came to a head in 200 picks up on Keynes's emphasis on animal spirits.[12]

Karl Polanyi's book *The Great Transformation*, first published in 1944, hardly used the ter *capitalism*. Yet, focusing on English cases from the nineteenth century, it dealt with th formation of a market economy that was breaking away from its political and social moorin —its "embeddedness"—and tending toward self-regulation. The dynamic of this mark economy, according to Polanyi, stood in sharp contrast to society's need for integratio According to him, the market had become a largely autonomous subsystem that force permanent change, tore apart the social fabric, and prevented the emergence of a reliab social order with stable identities so long as legislation and public administration did n succeed in creating new forms of "embeddedness" and thereby curbing the market destructive dynamism. Polanyi's book, which rests on a weak empirical foundation and is n compatible with the current state of research in economic history, misconstrues social histor *before* capitalist industrialization, which was already much more strongly defined by marke and much less idyllic than Polanyi supposes. Conversely, the unleashing of market forces the nineteenth and early twentieth centuries is strongly exaggerated. Yet conceptually th book does have important food for thought. In recent years it has exerted considerab influence on the critical analysis of capitalism in the social sciences.[13]

Most authors conceive of the market as a necessary but not sufficient criterion “capitalism.” The comparison frequently made during the decades of the Cold War betwee capitalism and the centrally administered economy of state socialism lent even greate prominence to the market as an essential component of capitalism. The historian Fernar Braudel wrote against this view. In his three-volume *Civilization and Capitalism, 15th–18 Century*, first published in France in 1979, he delivered penetrating descriptions of emergir capitalism while distinguishing it from the “market economy.” In the latter category h includes local markets and business transactions by traders and most merchants, but als trade fairs and stock exchanges. By contrast, he confines the term *capitalism* to the busine transactions of a small and quite exclusive upper echelon of rich, powerful capitalists wh depending on how matters stood in long-distance trade, were successful merchant shipowners, insurers, bankers, and entrepreneurs but also landowning squires, and usual several of these simultaneously. In these upper echelons—which Braudel identified wi capitalism, at least for the early modern period—market competition did not play a maj role, while monopolization of market opportunities, usually facilitated by the closest of ti to the politically powerful, was all the more important.

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

Immanuel Wallerstein and Giovanni Arrighi, among others, have taken up Braudel concept of capitalism and his pathbreaking excursions into the extra-European history capitalism. Their work has given impetus to the important question of capitalism transnational and ultimately global dimensions. The *Communist Manifesto* had alreac predicted the global expansion of capitalism. In particular, socialist theorists of imperialis like Rudolf Hilferding, Rosa Luxemburg, and Lenin[15] had discussed the cross-border effec and interconnections of capitalism, especially the capitalist impulses behind imperiali expansion and dependencies between exploited peripheries and imperially domina metropoles, as well as the link between capitalism and international conflicts. Variou *dependencia* theories and, above all, Wallerstein’s world-system approach developed the intellectual traditions in the third quarter of the twentieth century. And Arrighi advanced th globalization of research on capitalism by exploring the spatial shift of the world economy center of gravity—from northern Italy in the late Middle Ages, via the Netherlands in th early modern era, and England since the eighteenth century, to the USA (twentieth century and, perhaps, soon to China.[16] With the growing receptiveness of historical scholarship global history that has taken place over the last two decades, capitalism is increasing discussed as a phenomenon of global history.[17] This draws attention to the spatial compone of capitalism, to capitalist expansion and trans-regional interconnections. New questions a being put on the agenda, and old ones are being reformulated, such as the question of th West's place in the history of capitalism. As a result, the definitions of *capitalism* that hav largely been coined in Europe and North America could be subject to change over the lon run. But this much is also clear: however much the concept and theories of capitalism are, b way of origin, products of Western experience and scholarship, just as little is their claim t validity and analytical power confined to the West.[18] Rather, these definitions constitute a invitation to historical inquiry that is transnational and global.

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

I shall refrain from adding the existence of a business undertaking or enterprise as a additional feature of capitalism in order not to exclude less formalized variants by definitio variants that have been widespread across the centuries and are still—and again—so toda But there is a strong tendency to form business enterprises as capitalist units of decisio making, action, and accountability. When the enterprises are formed, their claim t accomplishment rests on "private" (meaning nongovernmental, noncommunal, noncollectiv rights of property and use. They have some independence vis-à-vis the state and other soci institutions, but also vis-à-vis the households of economic actors. On the inside, enterprise are primarily hierarchical in structure. The enterprise is an important space in which capit and labor enter into a relationship with each other: there is an interaction betwee capitalistically legitimated entrepreneurs employing a workforce, on the one hand, and th dependently employed, namely workers and salaried employees who do not own capital o the means of production, on the other hand. Workers are typically employed as wag workers on a contractual basis—that is, for a time, without involving their entire personali —and in this sense are free. Relations between capital and labor, between employers an employees, are an exchange relationship according to market principles on the one hand, an on the other hand an asymmetrical authority relationship that permits the absorption o "surplus value" and has a variety of consequences for society.[21]

This definition allows us to include in the investigation those manifestations of capitalis that merely represent minority phenomena within noncapitalist environments. However, order to speak of a full-fledged "capitalist economy" or a "capitalist system," capitali principles do need to have a certain dominance. This means not only dominance as regulatory mechanism inside the economy (although this is also important) but also th tendency of capitalist principles to extend beyond the economy into other spheres of socie and influence them to a greater or lesser extent. This dominance and pervasive influence o capitalist principles beyond the economic sphere has been the case no matter how much th anchoring of capitalism in noncapitalist relations has historically been the rule. The system-extending character of capitalism reaching out beyond the economic sphere is capable of expressing itself to very different degrees and in quite different forms. Capitalism is possible in different societies, cultures, and state formations. At the same time, its outreach into noneconomic areas of life certainly does have its limits, which are historically variable and can become influenced by politics.

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

The following account cannot possibly aim at an exhaustive treatment of all countries and regions in which capitalism has happened. Instead, it understands capitalism as a worldwide phenomenon whose most important phases and variations, impulses, problems, and consequences it will unfold in chronological order and exemplify in different countries or regions. To that end, influential leading regions will be picked for each respective phase and variant. For the early centuries of merchant capitalism, I look at China, Arabia, and parts of Europe. In the breakthrough phase of around 1500 to around 1800, when "modern capitalism" in Marx's and Weber's sense of the term emerged, western Europe moves into the center of the account, though with attention to European capitalism's global linkages. In the nineteenth and twentieth centuries, attention shifts to industrial capitalism and finally to the rise of finance capitalism, which will primarily be illustrated with European, North American, and some Japanese examples. Capitalism's accelerated globalization in the second half of the twentieth century and at the beginning of the twenty-first requires a look beyond the West, especially as it is experienced in East Asia. Overall, developments in Europe, and then North America, take up the most space. This is justified by the subject: capitalism was a Western phenomenon for long stretches of its history, even if it would either not have developed or have developed differently without its global links. But the author's preferences undoubtedly also play a role here, since I am more at home in the history of the West than that of other continents. Fully incorporating those other regions of the globe would have to be the aim of a more comprehensive account.

2

Merchant Capitalism

In the scholarly literature, there are different answers to the question of when capitalis began. The diversity of voices results from using different concepts of capitalism as well a from the fact that unambiguous turning points rarely occur in social and economic reality Early rudiments are easiest to find in long-distance trade. In Mesopotamia and the easter Mediterranean, on the "Silk Road" and the great East-West trade route through the India Ocean, this trade was largely in the hands of independent merchants. These merchants trade on their own accounts, even if this was usually done in close coordination with the political powerful, and often, moreover, in close cooperation with other merchants, typically in cros border networks based on common ties of ethnicity, homeland, or religion. There was no lac of profit seeking, daring, dynamism, or a willingness to cope with insecurity and competitio

The first agglomerations of merchant capitalism may be observed in the intermittent emerging empires that developed serious cash requirements for their military undertakin and hence favored above all developing markets that promoted monetization and attempte to strengthen economic performance, also by building transport routes, operating min (precious metals!), and securing a minimum of order. Early on, market and state formatio went hand in hand.[2] For example, the civil service state of the Chinese Han dynasty (20 BCE–CE 220) made an effort to standardize the currency, expand market relations, ar promote a lively long-distance trade carried out by independent merchants. At the same tim it intervened directly in trade and commerce. In the Roman imperial era (1 BCE–CE 5), th monetization of the economy and commercialization of everyday life in the big cities reache a high level, long-distance trade in foodstuffs and luxury goods flourished, the large latifund produced for the market at a profit, and economic transactions like the sale or lease of lar took place on a contractual basis aided by precise calculations. There was also no lack more or less free wage workers. Yet on the whole the subsistence economy was predominar slave labor was widespread, and "the strong drive to acquire wealth was not translated into drive to create capital" (Moses Finley). The orientation toward secure rents was mo widespread than the drive for profit. Productivity growth and macroeconomic growth we kept within limits, and the orientation toward war and booty was still stronger than th orientation toward long-term market success. This is why one sometimes hesitates to call th economy of Greco-Roman antiquity capitalist.[3]

China and Arabia

In order to examine what was going on with capitalism or its rudiments during the centuri that are summarized as the "Middle Ages" in European history, we turn our attention to thre

regions known for having been scenes of relevant developments in this period of time: Chin
the Indian Ocean region that increasingly came under Arab influence, and western Europe.

The basic pattern that emerged in China during the Han dynasty continued in the centuri to follow. It facilitated the expansion of international trade relations and an ever liveli exchange with regions to its west, that is, with India and the Arab world in particular. Th Confucianism practiced by the civil servants who exercised political power included suc elements as a rejection of pronounced inequality and hence of too much independent wealt the promotion of agriculture, and state controls over money, the credit system, and trad These controls extended as far as a willingness to operate estates, supply depots, an workshops under state management. Buddhism, which started in India and spread out fro there to places in Asia where it was practiced above all by traders and merchants, had a mo positive attitude toward commercial activity. Buddhist cloisters not only accepted extensiv donations from believers. Eyed suspiciously by the state bureaucracy and at times suppresse they also operated as centers of capital formation, lending, and of profit-making investme of capital in agricultural and commercial companies. In the middle of the eighth centur Guangzhou was depicted as a lively and prosperous port and mercantile city. Foreign visito testified to the country's high living standard.

That living standard was especially true of China under the rule of the trade-friendly Su dynasty (960–1279). With the support of the government and its gigantic new fleet, th merchants expanded maritime trade, especially with Southeast Asia, India, the Arab worl East Africa, and even with Egypt. Domestically, too, the importance of money and mark relations increased considerably. Through the thirteenth century in some regions, especial in the southeastern part of the country, the traditional subsistence economy developed into different kind of economy, one relying on supraregional exports and producing both luxu goods and a variety of commercial consumer goods made out of stone, porcelain, and meta In exchange, the region imported foodstuffs, especially rice, from other provinces. Overal trade and industry spread in China, partly in workshops operated by civil servants merchants where wage workers were continuously employed. The country exported above a processed products (porcelain, paper, silk, art objects, metalwares), but also tea and meta like tin and lead. It imported horses, spices, medicines, precious stones, and other luxu goods, but also cotton fabrics. To some extent, economic activities were subordinated to th central state, which also saw to it that streets and canals were built; intermittently exercise monopoly rights with respect to salt, tea, and incense; controlled the currency; and made a effort to control the business in bills of exchange, developed by merchant bankers since th ninth century but still quite elementary, that had led to the circulation of notes an represented a kind of de facto money. But in principle the economic boom was supported b profit-oriented merchants whose investments, although restricted by the state, we considerable, and whose social status rose in that period. Historians have discussed a Chine "commercial revolution" in the eleventh and twelfth century. There were also pathbreaki technological innovations: gunpowder, the compass, and the printing press. In actuality, th boom happened in a mixed-economy system.

Much of this was continued when China was ruled by the invading Mongols (1279–136 and then later by the Ming dynasty (1368–1644). But in the following centuries, China d not keep up the extraordinary dynamism that it had achieved under the Sung dynasty. Th became most evident after Chinese policy shifted following the spectacular sea expeditio that Admiral Zheng-He, using large crews, successfully undertook to the distant coasts western Asia and Africa on diplomatic missions for the emperor. In the 1430s policy shifte away from sea trade and opted for letting the fleet deteriorate, making foreign journeys mo difficult for merchants and turning China inward. This much-discussed change of course, wi its long-term impact, certainly coincided with the demanding task of protecting the empire north against the Mongols and other possible invaders. It was the outcome of an intern power shift—within the tension-filled mixture of cooperation and conflict between sta power and market economy, between merchants as junior partners and civil servants senior partners—whereby a more conservative faction of landowners and Confucian civ servants emerged victorious. The ever-present mistrust of commerce and capital accumulati gained the upper hand. The Chinese form of merchant capitalism, politically controlled a embedded, proved poorly equipped to resist and insufficiently robust to oppose this politic change of course by a powerful central state.[4]

A second major region for medieval merchant capitalism was located in the Arabi empire that existed under the Umayyads and Abbasids between the late seventh and mi thirteenth centuries, encompassing western Asia, North Africa, and the Iberian peninsula, a established Islam as a world religion. Even as early as the emergence of Islam at t beginning of the seventh century, there was no lack of merchant capitalist elements. Mec and Medina were then lively merchant cities conveniently located on major caravan route Mohammed himself came from an urban mercantile milieu. The spread of Islam, which we hand in hand with the construction of an Arab-dominated, Muslim-influenced state, soon be an empire, happened unusually rapidly. This did not take place, however, primarily way of merchants and the expansionary forces of the market but rather by political forc violence, and conquest—and with the enormous impetus of a newly created missiona religion that pursued universal aspirations and used highly efficient mercenary troops wh quickly triumphed after the downfall of the Roman and Middle Eastern empires, subjugat various peoples, plundered in grand style, and complemented all this with a steady stream slaves, mostly from the stock of its defeated enemies. In just a few years (until 632), t Arabian peninsula was subjugated, within two additional decades the Near and Middle East well as Egypt and Libya were occupied, and in the late seventh and early eighth centuri there followed the incorporation of northwestern India, western North Africa, and the Iberi peninsula.

It was on the basis of this empire in formation, starting in the eighth century, that Ara and Persian merchants and traders, shipowners and seafarers, caravan operators and agents all kinds began to dominate existing trade routes running through the Eurasian continent a the great maritime trading routes as they simultaneously developed new trade links: towa Africa, toward Southeast Asia, and into western Europe. The most important one was still t great East-West link from the Mediterranean across the Arabian deserts, Persian Gulf, a Indian Ocean toward India, Southeast Asia, and China. In the major harbors where silk a porcelain, gold and silver and all kinds of metals, but also linens and metal utensils, hig grade wood, spices and oils, furniture and jewelry, slaves, and many other goods we transshipped, stacked, sold and resold, the facilities that these transactions required were the hands of Persians and Arabs who increasingly put together the ships' crews, led t caravans, and provided all the necessary information. Muslim-oriented law apparent provided a good foundation for concluding commercial-mercantile contracts, for borrowin and for collecting debts. It provided viable cross-border rules, without which long-distanc trade, risky in any event, could quickly deteriorate. On the basis of a common languag religion, and also to some extent culture, there emerged new networks of Arab merchants which—in spite of all the conflicts, competition, and infractions of rules—it was possible t fall back on a potential of trust that reduced insecurity, facilitated cooperation, and s created market relationships across great distances and heterogeneous regions.

Yet the rise of long-distance trade also had a domestic impact. Prosperity was clustere along the trade routes. To be sure, the subsistence economy remained dominant everywhe in this expanse, as did the practice of skimming off acquired assets by exerting politic authority rather than by recourse to the market. But the integration of many sites and region in developing market relations did lead to a differentiation of agricultural and commerci products. Thus, one can show on the basis of examples from northeastern Persia between th seventh and eleventh centuries that some places specialized in damask or satin, others b contrast on processing pelts and hides. There were places there that concentrated on makin soap and perfume, others on weapons, metal crockery, and tools. The workshops, which we involved in fluctuating price trends, also employed wage workers. Fruits, cane sugar, spice and dried fish were among the products that specialized peasants ventured bringing to supr local markets. In this way, the relationship between landowners, leaseholders, and slaves workers was indirectly shaped by changing market relations. For all this business to tak place, the assistance of traders and merchants was required, even if these dealers did not, as rule, intervene in the organization of production.[5] The capital of the merchants derived *in pa* from the large fortunes that grew out of earlier conquests and raids: an example of the kin of violent "original accumulation" that not infrequently stood at the cradle of capitalism Family relationships might open access to resources from land-owning elites. Busine partnerships were frequent, and they were used to finance and share in the risks of maj undertakings, though usually only for a limited period (e.g., one or two years) until th enterprise in question, for example a major buying and selling expedition by ship, came to a end. There were legal requirements for these ventures, including stipulations for shareholdi forms that were later designated in Europe by the term "Commenda." *In part*, the necessa capital came out of reinvested profits that had previously been made through trade. *Finall* there was also borrowing on credit.

In these Islamic-influenced societies, the possibility of lending money at profit as a way letting one's capital go to work, to "make it fruitful," was frequently used—this notion d exist there. The ban on interest anchored in the Koran—as well as in the Old Testament an the Talmud—could be skirted. On the one hand, the ban did not apply to "strangers": For th reason, Jews and Christians were predestined for the money and credit trade in the earl Islamic world (as were Jews and Arabs, later, in the Christian Occident). On the other han going back to the early ninth century, there was a special advice-dispensing literature publicl explaining various tricks that could be used to get around the ban on interest. In Arabi advanced credit instruments were developed, while checks and bills of exchange came in use even before the turn of the millennium. Checks could also be transferred across gre distances, even if they could not yet be properly traded. These were techniques that

Europe would not be used before the twelfth and thirteenth century.[6] From the outset, Isla adopted a positive attitude toward trade. Hardly an Islamic thinker seems to have rejecte the pursuit of profit as such as immoral or harmful to faith. Even the critique of wealt typical of early Christianity was missing. Influential Muslim scholars from the eleventh ar twelfth century, such as the Persians Ghazali and al-Tusi, viewed the market not primarily a site of competition or combat but as a place for cooperation and the expansion of mutu assistance via the division of labor and exchange, a little like the way Adam Smith wou view these in the eighteenth century. State intervention into price setting was denie legitimacy, and in this regard the example of the Prophet was invoked. In unadorne language and without criticism, the fourteenth-century Arab historian Ibn Khaldun asserte that the business of commerce was “to make a profit by increasing capital, through buyin goods at a low price and selling them at a high price, whether these goods consist of slave grain, animals, weapons, or clothing material.” In the eleventh century, the literature mappe out the skills possessed by different types of merchants: these included the ability to predi future price developments, knowledge of currency and price relations in other countries, ar access to reliable middlemen and warehouses in order to find and anticipate favorable sal conditions. The merchant enjoyed social recognition; like Sinbad the Sailor, he even ha enough of the right stuff to become the fictional hero of folklore storytellers. In the last tw centuries of the first millennium, the rudiments of a merchant capitalist bourgeoisie emerge in some parts of Arabia, more clearly here than anywhere else in the world at that time. Y the merchant capitalists had no share in the political power exercised by the traditional elite noble landowners, and military leaders. The bourgeoisie that was emerging here in a sporad and rudimentary fashion was not a ruling class. Arab merchants were more removed from th state than their Chinese—and European—counterparts.[7]

Europe: Dynamic Latecomer

In the comparative perspective of global history, merchant capitalism developed relativel late in medieval Europe, but then differently than in Asia. With the political collapse of th Western Roman Empire in the fifth century, and in the midst of the instability of th Germanic tribes’ migration period, economic life disintegrated, and capitalistic practices th had emerged in antiquity collapsed: this was again an example of the close connection, in th case negative, between the formation of states and markets. In the parts of Europe that ha been ruled and influenced by the Roman Empire (excluding the eastern Mediterranean regio which continued to be part of the Byzantine or Eastern Roman Empire), there was retrogression of the market economy, demonetization, and reversion to agriculture. Trad relations that had once extended from the Baltic Sea to China fell apart, cities and tradin centers atrophied, and highways were deserted. On the whole, the household economy ar self-sufficiency predominated, even if such institutions as monasteries often produced mor than they consumed, attempted to sell the surplus at a profit, accumulated capital, ar advanced money without interest, though not without gainful collateral. Trade was local restricted, by and large, although coastal sea trade was never completely broken off, ar Roman traditions did survive along the Mediterranean.

In medieval Europe, too, capitalistic practices caught on in long-distance trade. Betwee the twelfth and fifteenth centuries, trade between Europe and Asia that had heretofore bee rather sporadic extended, with increasing density and regularity, from the coastal cities northern Italy, southern France, and Catalonia to Egypt, Palestine, Syria, and Byzantium, ar from there further eastward.[8] The Crusades of the twelfth century, which to some exte were raids, simultaneously upset and powerfully stimulated East-West trade. For a long tim this trade was managed by shipowners, merchants, and ship captains from Venice, Genoa, ar somewhat later Florence, together with Pisa and Livorno, soon also points of departure fo ships sent through the Straits of Gibraltar to France, Flanders, and England. Anoth important trade route ran through the seas in the north and linked Russia, Poland, ar Scandinavia with Flanders, Brabant, and England. Yet routinely used and increasing upgraded trade routes were also developed on land: these included the Alpine passages fro Italy to southern Germany and further north, continuing along the Rhine route that led fro Basle to the Netherlands, where there was an oversea connection to England; there were als links that emerged between these trade regions because of regular visits to trade fairs starti in the middle of the twelfth century (initially in the Champagne region of France).

Not only were the merchants who carried on this longdistance trade following capitali principles, they were also developing cooperative solutions in an effort to reduce th considerable risks associated with long journeys over great distances. For the overlar journey they banded together into caravans, and they sent their ships out in fleets, no infrequently numbering fifty to a hundred, well armed in order to protect themselves again raids by robbers and pirates (and sometimes also by competitors!). In a time of weak stat and widespread mistrust toward foreigners, traveling merchants from the same regional ethnic background who found themselves in the same distant destination often stayed in clo contact with each other, and even lived there together on a mostly temporary basi separated from the native population, in trading stations, lodges, overseas branch offices, specialized urban districts, often with separate self-governing institutions and special leg jurisdictions of their own; these arrangements rested on a foundation of privileges th merchants had acquired from the relevant local authority in exchange for services rendere As a rule these were temporary associations among highly mobile persons, yet they could als develop into long-term unions, the best-known example of which is the Hanseatic League.[9]

Initially a union of traveling merchants with a common background from certain (most northern German) cities, and *simultaneously* a powerful if loosely structured alliance of wh was occasionally more than fifty cities, the "German Hanse" defined shipping, trade, ar politics in the North and Baltic Sea region from the thirteenth to the sixteenth centurie There was trade in luxury goods like spices and amber, but also with mass goods for daily u by a wide range of buyers, goods that included wool, cloth, pelts and hides, fish, salt ar grain, wooden and metal articles. Port cities like Lübeck, Hamburg, Stettin, Danzig, Breme Wismar, and Rostock were the leading places, but inland cities like Cologne, Magdeburg, ar Braunschweig also belonged to the League. The Hanse League, moreover, had outposts (s called *Kontoren*—branch offices or counting houses—in old commercial German) in suc diverse places as Novgorod, Bergen, London, and Bruges.

The merchants of the Hanse liked to combine in pairs and form small trading compani that would last for several years. They shared what were frequently high profits: in th fourteenth and fifteenth centuries, it was said, there could be an annual return of 15 to 2