

Classical Sociological Theory
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Lecture No. 39
Modern Rational Capitalism

So, welcome back to the class, let us begin another session on Weber. And in this class we are looking at a very important analysis of Weber on a modern capitalism. And we know that capitalism is a unique economic system that is characteristic of the modern era. And this particular economic system has been subjected to a lot of scholarly analysis, not only from economists but also from other social scientists.

We did spend a lot of time trying to understand the Marxian analysis as well as critic of capitalism. And here, as a sociologist, Weber also is extremely interested in understanding capitalism. But unlike Karl Marx, he is not trying to understand the economic logic or the questions of exploitation associated with capitalism, but he is trying to understand the connection between capitalism and rationalism or the process rationalization.

This takes you back to a theme that I have repeatedly mentioned in the previous classes that the central concern of Max Weber is a question of rationalization. We have already discussed about his analysis about rationalization and social action and authority.

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- For Weber, capitalism is the consequence of extensive rationalization in Europe. The modern world is a capitalist world, but more fundamentally it is the product of a multifarious and far-reaching process of rationalization
- By referring to capitalism as “rational,” Weber does not mean to imply “moral approval.” His usage is intended to be descriptive, not evaluative.
- Modern capitalism is rational in the formal sense—this is Weber’s key point—to the extent that business operations are conducted according to systematic planning based on economic calculation and monetary accounting.



In this class, we are trying to understand how Weber puts forward an argument about how there is an intricately close relationship between rationalization and this capitalist mode of economy. Let us see how he proceeds in that. So, for Weber, capitalism is a consequence of extensive rationalization in Europe. The modern world is a capitalist world, but more fundamentally, it is the product of a multifarious and far reaching process of rationalization. So, for Weber, the entry point into the analysis of capitalism is his theory of rationalization.

We discussed that in a very controversial manner, Weber argued that, while different forms of rationality exist in other civilizations, a unique kind of rationality is quite exclusive to that of Europe, where you calculate everything and you extensively use specialized knowledge and science and technological facilities. So, that kind of a rationality, Weber argues is quite unique to Europe and did not exist before the time of modernity.

Weber is connecting his argument about rationalization with the emergence of this new economic system called as capitalism. The modern world is a capitalist world and more fundamentally, it is a product of a multifarious and far reaching process of rationalization. By referring to capitalism as a rational, Weber but does not mean to imply moral approval, his usage is intended to be descriptive, not evaluative. I think, by now, you are rather clear about it when we talked about neutral, value free analysis of capitalism, because Weber is not taking any position, unlike Marx who was extremely critical of capitalism.

Weber is not getting into the argument of whether capitalism is good or bad, whether it is exploitative of workers or whether it should collapse and something else should take its place. Weber is not getting into such kind of debates, rather, he is trying to maintain the status of a neutral observer, who is capable of analyzing things objectively and trying to describe things as they appear, without allowing their own subjective values to influence their findings or their descriptions.

His usage is intended to be descriptive and not evaluative, or in other words, he is trying to be positive rather than normative, a point that we discussed in the previous class. So, modern capitalism is rational in the formal sense. And here again, I hope you remember, Weber makes this distinction between substantive rationalism and formal rationalism. This is Weber's key point, to the extent that business operations are conducted according to systematic planning based on economic calculation and monetary accounting.

The modern capitalism according to Weber, does not have anything much to offer in terms of certain lofty ideals or values, rather it is more preoccupied with a kind of a formal form of rationality. It is, this business operations are conducted according to systematic planning based on economic calculation and monetary accounting.

Extremely rational instrumental mechanisms are brought in to conduct the business in the era of capitalism where it is devoid of all other calculations. If you remember this typology of actions, where emotions are kept away, traditions are kept away or ideals and certain values systems are kept away. So, here Weber argues that modern capitalism is executed in an extremely rational manner based on economic calculation and monetary accounting.

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- Capitalist enterprises, as profit-seeking organizations, are formally rational insofar as their managing decisions are consistently guided by the impersonal and quantitative assessment of costs and revenues.
- While capitalism is neither new nor western, according to Weber, what he calls "rational capitalism" is both uniquely modern and uniquely western.
- Earlier forms of capitalism, Weber observes, have an "irrational and speculative character," with profit derived less from ongoing market operations than from opportunistic investments and the forcible acquisition of "booty."



Weber argues that the capitalist enterprises as profit seeking organizations are formally rational insofar as their managing decisions are consistently guided by the impersonal and quantitative assessment of cost and revenues. So the people who engage in that are not swayed or they are not influenced by any other considerations. No personal commitments or no value orientations, no emotional issues are allowed to mark, they are not allowed to influence their economic calculations, which is carried out purely on the basis of cost and revenues.

It is a cold, calculative and instrumental way of getting things done in a very precise and clinical manner. You carry on with your economic activities only with the purpose of increasing your profit and then making more money. So, they are formally rational as they are managing decisions are consistently guided by impersonal and quantitative assessments of constant revenues. While capitalism is neither new nor western, according to Weber, what he calls rational capitalism is both uniquely modern and uniquely western.

Weber the argument that the capitalism as a form of economic activity is not something quite new, or it is not something quite unique to Western idea. You have different types of capitalism exist in in different part of the world. But this rational capitalism, as he explains, is uniquely modern, and it is uniquely western. Again he is highlighting this unique character of Europe, the way he talked about the rationality. He understand these rationalization as a unique example of that of the Europe.

Early forms of capitalism, Weber observes, have an irrational and speculative character, with profits derived less from ongoing market operations than from opportunistic investments, and forcible acquisition of booty. So, he is talking about major trades and explorations and other expeditions carried out by trading communities in Europe and in other places. And he says that, while these activities also aimed at amassing more wealth and increasing more profit, it is very different from modern capitalism. The process of amassing wealth started since fifteenth century through trade expeditions and later through colonial expansion.

Weber argues that they were irrational in the modern sense, not that they were completely but they were irrational and speculative in character. In earlier forms of capitalism, profits derived less from ongoing market operations than from the opportunistic investment and the forcible acquisition of booty. During colonial trade plundering was a major way of acquiring more and more wealth, the trading vessels were plundered and attacked and the booty was taken.

So in earlier forms of economic activities, amassing wealth happened in the absence of an ongoing market operation whereas in the modern era, market assumes a central figure.

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- Modern rational capitalism cannot be equated with the “acquisitive drive,” or the “unlimited greed for gain,” or the “pursuit of selfish interests by the making of money.”
- Modern capitalism, tempered by the businesslike pursuit of profit, is if anything characterized by a more restrained acquisitive impulse than the “compulsive, irrational, unbridled” lust for riches commonly found prior to and outside the modern capitalist world.
- Modern capitalism, according to Weber, is an economic system where the provision of human needs is satisfied through the continuous operation of privately owned and profit-minded business firms.



Then he comes to the question of modern capitalism. Modern rational capitalism cannot be equated with the acquisitive drive or the unlimited greed for gain or the pursuit of selfish interest by making of money. So, he says that this modern rational capitalism as he, as you have seen contemporary world or at the time of Weber, it is qualitatively different in terms of its operation. And it is also qualitatively different in terms of its intent or its purpose.

Weber says that it cannot be equated with the acquisitive drive of the earlier period, where you want to create wealth, in without any boundary or the unlimited greed for gain, personal greed or the pursuit of selfish interest by making of money. So, he says that, capitalist expansion is taking place, it cannot be reduced to the individual greed. Of course, in the motivation to create more wealth is of course there, but that is something qualitatively different from the earlier ways in which people want to amass more wealth for their personal gratification.

So, modern capitalism, tempered by the businesslike pursuit of profit is, if anything characterized by a more restrained accusative impulse than the compulsive, irrational unbridled lust for rich commonly found prior to and outside the modern capitalist world. So, this is again, re-emphasizing the argument that this modern capitalism which is tempered by businesslike pursuits of profit, if it is anything characterized by more than restrained accusative impulse than the compulsive era, he uses all these terms to characterize the pre-modern capitalism that was characteristic of the middle ages or even before that.

Now, in contrast, according to Weber, modern capitalism is an economic system, where the provision of human needs is satisfied through the continuous operation of privately owned and profit minded business firms. So here, he brings in the central role of business firms as the primary institution and also the kind of is need is satisfied through the continuous operation of privately owned and profit minded business firms.

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- These capitalist enterprises are distinguished by their reliance on a legally free labor force, their resolute orientation toward market opportunities, and a mode of operation governed by monetary calculation.



- What distinguishes the modern economic system accordingly, Weber asserts, is the rational pursuit of profit, "and forever renewed profit" by means of "rigorous calculation, directed with foresight and caution toward" long-run economic success.



So, what are the kind of changes that take place when you bring in this role of business firms, these capitalist enterprises are distinguished by their reliance on a legally free labor force, their resolute orientation towards market opportunities, and a mode of operation governed by monetary calculation, these are extremely important points.

We know that we had some discussion about how there was a transition from feudal era to that of capitalist era where we discussed a number of important factors, especially about the emergence of free labor, emergence of market, emergence of institutionalized laws and regulations, so that the people who enter into the business activity, they have some amount of certainty, some amount of guarantee about the existing laws, taxes and other things. So, he is reiterating the kind of similar points.

So, these capitalist enterprises are distinguished by their reliance on a legally free labor, we discuss I hope, you remember, we discussed extensively on this because during the period of slavery as well as during the period of feudalism, the labour were not free, they were not free

because they were completely owned by the masters and during the feudal period, they were permanently attached with their kind of land.

So, they were not free moving, they were not able to sell their labor, as per their wishes. So, there is a legally free labor force, they resolute orientation towards market opportunities. It is not on the basis of the whims and fancies of a trader or of a particular master or a feudal lord, but there is an establish market system and a mode of operation governed by monetary calculation. So here, the money assumes significant presence and not the kind of an old systems of barter or exchange and other things.

Now what distinguishes modern economic system accordingly, Weber asserts, is the rational pursuit of profit and forever renewed profit by means of rigorous calculation directed with foresight and caution towards long run economic success. So here, he is bringing that point of modern rationality to the fore. So, he argues that there is a rational pursuit of profit.

Again, a profit making continues to be the main objective, but this profit making is not realized either through plunder or pillage or through exchange or excavations or other thing expeditions, but rather, it is through a rational pursuit of profit. And it is forever renewed profit by means of a rigorous calculation, directed with foresight and caution toward long term economic success. So, the long run economic success of this activities very thoroughly analyzed, and everything is taken into account, enough caution is used and only after such kind of exercises, Weber argues a modern capitalism emerges.

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Major preconditions of the emergence of capitalism

- *Private Ownership.* Modern capitalism presupposes private ownership of the means of production with entrepreneurs firmly in charge. Ownership gives capitalists or their representatives the authority to manage the production process, direct the labor force, and make investment decisions—all guided by monetary calculations and oriented toward the goal of profit maximization.

- *Free Labor.* The rationality of modern capitalism also presupposes a labor force that is legally free but compelled by "the whip of hunger" to offer its services on the labor market. Free labor—where workers can be hired, deployed, and fired at will—is an important precondition of capitalist rationality for two reasons. First, where workers sell their labor on the market for a wage, employers can reliably estimate the costs of production in advance. Second, free labor, along with private control over the means of production, facilitates workplace discipline.



So, there were several major preconditions for the emergence of capitalism, Weber asks this question why capitalism did not emerge in Europe before the era of modernity and he has very specific answers. So, he listed out a series of reasons and the first one is private ownership. Modern capitalism presupposes private ownership of the means of production with entrepreneurs firmly in charge.

Ownership gives capitalists or their representatives the authority to manage the production process, direct the labor force, and make investment decisions, all guided by monetary calculations and oriented towards goal of profit maximization. So Weber is very certain that the ownership of private property such as factory, land or other means of production, played a fundamental role in motivating groups of people to increase and amass more and more wealth.

Weber certain that this would not have happened if a system similar to communism or socialism existed, where there is no private ownership, and means of production is collectively owned. So, ownership gives capitalists or their representatives the authority to manage the production process, we know how a class of managers emerged off late who were specialized only in micromanaging as well as providing a larger managerial directions to the process of production and direct the labor force and make investment decisions, very prudent investment decisions, all guided by monetary calculations are oriented towards goal of profit maximization.

Second one is free labor, which we already discussed, the rationality of modern capitalism also presupposes a labor force that is legally free, but compelled by the whip of hunger to offer its services on the labor market. I want you to recollect Karl Marx here. His arguments about this reserve army of labor, and how and why that the capitalists are able to exploit the workers and how there are upward growth and recessions and how there are cycles of business. I want you to remember that.

So, there is a legally free labor force, who in theory can sell their labor to the highest bidder. But you know that as Marx very elaborately argued, there is always already existing group of reserve army of laborers who are forced to sell their labor, even when real wages are very inadequate.

According to Marxian argument, the capitalist or the bourgeoisie will find ways to reduce the wages compared to what they really deserved, compelled by the whip of hunger to offer its services on the labor market, free labor, where workers can be hired, deployed and fired at will, is an important precondition for the capitalist rationality for two reasons.

First, where workers sell their labor on the market for a wage, employees can reliably estimate the cost of production in advance. Second, free labor along with private control over the means of production facilitates workplace discipline, very important things because you can appoint workers, you can train them, and you can fire them at will. The wages can be determined according to the will of the capitalists. So this provided quite a lot of flexibility to the capitalist, according to Weber.

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- *Free Market.* The efficient operation of the capitalist business enterprise and the reliable determination of expected profits are possible only with the elimination of all market restrictions and other “irrational limitations on trading.” This requires that market transactions be purely impersonal, free from the influence of any sentimental, religious, or ethical infringements.
- *Capital Accounting.* A rational capitalist enterprise, Weber states, is one that determines the merit of investment opportunities by means of modern bookkeeping methods.
- *Technology and Mechanization.* Modern capitalism presupposes rational technology and the mechanization of production and distribution. Technology enhances efficiency, but more importantly for Weber, because it permits accurate estimates of output, it facilitates rational accounting and precise calculation.



Then the third one, according to Weber is a Free Market. The efficient operation of the capitalist business and the price and the reliable determination of expected profits are possible only with the elimination of all market restrictions and other irrational limitations of trading. This requires that market transactions be purely impersonal, free from the influence of any sentimental, religious or ethical infringements. This is related to arguments of Adam Smith and others about the invisible hand of the free market.

Whether there an invisible hand available or is a free market is something you know, good for the humanity all these are entirely different set of debates, but what Weber is arguing that, in the absence of a free market, a market which runs only on the basis of its own rationalities, a market that is unhindered by excessive political, religious or personal influences is something so paramount for the emergence of modern rational capitalism.

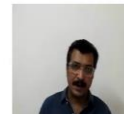
Then the fourth one is Capital Accounting which is a rational capitalist enterprise, Weber states, is one that determines the merit of investment opportunities by means of modern bookkeeping methods, the modern accounting, Weber argues where you have standardized procedures for entering the income, the expenditure, the other components. So, this modern bookkeeping or accounting provides a kind of an institutionalized mechanism to keep track of your way of conducting business.

Another point is Technology and Mechanization, which is very important. Modern capitalism presupposes rational technology and the mechanization of production and distribution, technology enhances efficiency, but more importantly for Weber, it permits accurate estimation of output and facilitates rational accounting and precise calculation.

Here again, Weber brings this role of technology not only for increasing efficiency, but also it contributes to their predictability. Technology can very clearly give you an idea about what is the what is the output, how much raw materials is required, how much time is required, what would be the output of a given a particular period in time. So, this factor Weber, argues is something extremely important.

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- *Calculable Legal and Administrative System.* Modern capitalism presupposes "calculable law" and a dependable legal and political environment.
- *Commercialization.* Modern capitalism presupposes the "commercialization" of economic life. By "commercialization," Weber means "the appearance of paper representing shares in enterprise" and "rights to income." Typified by the emergence of the stock company, this development, he argues, "has taken place only in the modern western world."
- *Separation of Household and Business.* Finally, modern capitalism also presupposes, as a requisite for rational bookkeeping, the "separation of business from the household." This entails both a "spatial separation" between residence and work and, more importantly, a "legal separation" between the personal wealth of the business owner, his or her private assets, and the corporate wealth of the business enterprise, the capital invested in or available to the firm



Another point, Weber argues is this calculable legal and administrative system. Modern capitalism presupposes calculable laws and dependable legal and political environment, which is extremely important. You cannot think of capitalism to survive or any economic activity to survive in a place where there is no law and order, the economy will simply crumble in such kind of places. In order for a free market to thrive, Weber argues that you need to have a calculable legal and administrative system.

Of course, there could be changes, new laws and new taxes can be imposed, but then they are all within the kind of an expected limits. These are not decided on the basis of the whims and fancies of a particular ruler who can act at will. The systems are well entrenched, there are laws,

both national as well as international laws, there are various conventions and various protocols, various treaties that are established and they are respected. So, that gives certain sense of certainty and security to the people who are involved in this whole process.

Then the next one is a commercialization, modern capitalism presupposes the commercialization of economic life. By commercialization, Weber means the appearance of paper representing shares in enterprise and rights to income typified by the emergence of the stock company, this development, he argues, has taken place only in the modern Western world which is an extreme form of commercialization where you can own the shares of a company.

You can own the shares of a company and this public issue of shares as that happens through the modern stock exchange. These are some of the extremely important enabling conditions and then the separation of household and business which is another interesting point. We need to be critical of this point because even now there are huge business conglomerates both within the country as well as outside, which is yet to make this kind of distinction.

Finally, modern capitalism also presupposes as a requisite for rational bookkeeping, the separation of business from the household. This entails both the spatial separation between residence and work and more importantly, a legal separation between the personal wealth of the business owner or his or her private assets and the corporate wealth of the business enterprise, the capital invested in or available for to the firm.

One is that there is a physical separation, the earlier or even now that in many houses, production takes place within houses, very small domestic level of houses, but when you look into the modern capitalist system, the place of work is completely different from the place of living, they are completely physically separate. And more than that, even though the private families could be owning a company or a corporate firm, they might be the owners in the traditional sense, there is a separation of the personal wealth as well as the wealth of the company.

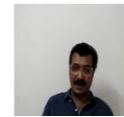
And again this is a very complicated scenario, we come across quite a lot of stories where this line is broken. There is hardly any, distinction exists between the corporate money and the personal money. If you look into some of the recent controversies involving some of the billionaires who had to flee the country, who had committed a lot of frauds and other crimes this particular point becomes very clear.

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- Appearing only in the modern western world, this constellation of conditions, Weber argues, enables capitalist business enterprises to achieve “a maximum of formal rationality.” This quality—its rational organization and calculability—is precisely what makes capitalism such a formidable economic system.



- Other factors are also necessary, most importantly a “rational spirit, the rationalization of the conduct of life in general, and a rationalistic economic ethic.” Thus the formal rationality of capitalism has yet another presupposition : it requires the presence of a new type of person, the “carriers” or “bearers” of a “rational ethic” and a new and specifically methodical way of life. Weber takes up this side of the story in *The Protestant Ethic and Spirit of Capitalism*



However Weber argues that these constellation of conditions enabled capitalist business enterprise to achieve a maximum of formal rationality, rational organization, and calculability and that makes capitalism such a formidable economic system. All these aspects that we discussed came into existence, with its full force only in the modern period and that too only in Europe, which is what Weber argues.

Weber was also criticized heavily for his very strong, Eurocentric position. He is very categorical in arguing that this entailed a maximum of formal rationality and nothing to do with substantive rationality, nothing to do with values or lofty ideals or ideals or nothing of that sort. It is all about how do you do certain things, how instrumentally you do certain things, what are the procedural mechanisms, the emphasize is completely on the procedure, not on the inner meaning not on the ideal, not on any of the principles. So, this is precisely what makes capitalism such a formidable economic system.

Other factors are also necessary such as a rational spirit, the rationalization of the conduct of life in general and the rationalistic economic ethic, this is very interesting. So far, all the points that we discussed, including free market, legal system, free labor, separation of household, were all about the kind of structural conditions, about the social factors and economic arrangements.

He says that, there has to be some kind of an attitudinal change, a certain kind of a qualitative change in the way people think and there has to be a rational spirit, the rationalization of the

conduct of life in general and their rationalistic economic ethic. He is talking about how ethics or how a certain kind of a spirit or attitude is very important for the emergence of capitalism.

Thus the formal rationality of capitalism has yet another presupposition, it requires the presence of a new type of person, the carrier or bearers of a rational ethic, and a new and specifically methodical way of life. Weber takes up this side of the story in his very famous book, 'The Protestant Ethic and Spirit of Capitalism'. And this is going to be very fascinating argument.

He is saying that along with all these structural requirements, you require a kind of orientation, you require a kind of your attitude, you require a kind of certain kind of proclivity which are certain set of ethos, certain set of ideals that provide some kind of a guidance to your everyday life, your both your personal as well as your collective life.

In the absence of this set of ethos, or this particular spirit, capitalism would not have emerged. And that is a very provocative argument. It is provocative because it is in direct conflict with a Marxian argument about economic change. Marx absolutely gave no importance to any of such kind of attitudinal changes, or changes in values. He argued that all these things happen as a result of economic ethic.

Here, Weber is bringing this importance of this spirit or a set of ideas or set of ethos as something so important for the emergence of capitalism. And this argument he brings forth in its complete majesty or complete beauty in his extremely popular work, his magnum opus, 'The Protestant Ethic and The Spirit of Capitalism'. And this book will be the subject matter of our next class and extremely important work by Weber.

Let us have a very short recap. He is talking about the emergence of modern capitalism. He does not say that capitalism as an economic system was something quite unique to Europe it emerged only during the modern times, but he says that it existed earlier, but he would very vehemently argue that the modern rational capitalism, is something quite unique to Western Europe. Because that required a set of other structural conditions for its emergence, including all the points that we discussed, including a private property, free labor, then existing legal systems and a host of other science and technology and host of other points that we discussed.

Weber, towards the end of this discussion is saying that, it is not only that the structural factors are important, but also the change in the spirit, change in the ethic, change in the moral aspects

that govern not only the individual, but also the collective, is also important. That is what we are going to discuss in the coming class in his work on this Protestant Ethic and Spirit of Capitalism. So, let us stop here and see you for the next class. Thank you.