

WHEN WEBER'S economic sociology is being referred to most people think of *The Protestant Ethic* and such writings as *Economy and Society* and *General Economic History* (1). Weber himself, however, only considered that one of his texts could be properly labelled a study in economic sociology (*Wirtschaftssoziologie*), and that was Chapter 2 in Part 1 of *Economy and Society*, 'Sociological Categories of Economic Action'. In this text, which was written during Weber's last years (1919-1920), an attempt is made to lay a theoretical foundation for economic sociology. This text, I argue in this article, is unique among Weber's writings on economy and society, and can be said to constitute his manifesto in economic sociology.

Weber, as is well known, had been interested in the social dimension of economic phenomena from the very beginning of his academic career; and one can, for example, point to his famous study for the *Verein* in the 1890s and show how it attempts to broaden a purely economic analysis by including a social dimension (2). Weber's most sustained attempt to develop an economic sociology was, however, made many years later, more precisely around 1908-1914 when he was working on his own contribution to a handbook in economics that he had undertaken to edit, *Grundriss der Sozialökonomik*. Weber's writings did for the handbook during the early 1910s (he stopped working on the *Grundriss* when World War I broke out) constitute undoubtedly a magnificent contribution to economic sociology (3). But it also deserves to be pointed out that they all try to trace the impact of 'society' on 'the economy', and do not attempt to apply the sociological perspective directly to the economy itself. This, however, is exactly what Weber decided to do after World War I, when he set out to produce a slimmer and more textbook like version of his contribution to the handbook. The result was 'Sociological Categories of Economic Action' (4).

(1) For comments I thank Cecilia Swedberg, Lars Udehn and participants at a seminar at the Department of Sociology at Stockholm University in the fall of 1997, where a preliminary version of this article was presented. Some material is cited by courtesy of the Harvard University Archives.

(2) Max WEBER, *Die Lage der Landarbeiter im ostelbischen Deutschland. 1892. Max Weber Gesamtausgabe 1/3*. Ed. Martin Riesebrodt (Tübingen: J.C.B. Mohr, 1984). For a discussion of Weber's writings on the East Elban question, see e.g. Keith TRIBE (ed.), *Reading Weber* (London: Routledge, 1989).

(3) Weber's first version of *Economy and*

Society is to be found on pages 311-372 in the current English translation. These pages, it should be added, may also contain some material which Weber had not intended for inclusion.

(4) Weber only had time to complete the rewriting of Part I of *Economy and Society*, which consists of four chapters: 'Basic Sociological Terms', 'Sociological Categories of Economic Action', 'The Types of Legitimate Domination' and 'Status Groups and Classes'. For the history of how *Economy and Society* was written, see especially Johannes WINKELMANN, *Max Webers hinterlassenes Hauptwerk* (Tübingen: J.C.B. Mohr, 1986) and Wolfgang

Before taking a closer look at this text, it deserves to be noted that 'Sociological Categories of Economic Action' has largely been ignored in the major secondary literature on Weber's work. Indeed, one of the leading Weberologists stated a few years ago that this text had 'proved a waste of effort' (5). A few exceptions naturally exist, but most of those who have commented on Chapter 2 have not been interested in economic sociology but rather looked at this text with other purposes in mind (6). The best commentary is still the one by Talcott Parsons in 1947, which was part of his introduction to *The Theory of Social and Economic Organization* (Part I of

SCHLUCHTER, *Economy and Society: The End of A Myth*, in *Rationalism, Religion, and Domination: A Weberian Perspective* (Berkeley: University of California Press, 1989), 433-63. For some additional information, see Wolfgang MOMMSEN, *Die Siebecks und Max Weber, Geschichte und Gesellschaft* 22 (1996), 19-30.

(5) This is Guenther Roth, who has also noted that 'economists and sociologists [with minor exceptions] have ignored it [that is, 'Sociological Categories of Economic Action']'. See Guenther ROTH, *Weber's Political Failure, Telos* (Winter 1988-1989), p. 149. Alan Sica has decried the 'almost unreadable accretion of definition piled upon definition' in Chapter 2. See Alan SICA, *Weber, Irrationality, and Social Order* (Berkeley: University of California Press, 1988), 146, 208.

(6) See Veith Michael BADER, Johannes BERGER, Heiner GASSMANN and Jost v.d. KNESEBECK, Max Weber: Soziologische Grundbegriffe des Wirtschaftens, *Einführung in die Gesellschaftstheorie. Gesellschaft, Wirtschaft und Staat bei Marx und Weber* (Frankfurt: Campus Verlag, [1976] 1987), 193-320; Julien FREUND, *The Sociology of Economics, The Sociology of Max Weber* (Harmondsworth: Penguin Books, [1966] 1972), 149-75; Bryn JONES, *Economic Action and Rational Organization in the Sociology of Weber*, in Barry HINDESS (ed.), *Sociological Theories of the Economy* (London: Macmillan, 1977), 28-65; Stephen KALBERG, *Max Weber's Universal-Historical Architectonic of Economically-Oriented Action: A Preliminary Reconstruction*, *Current Perspectives in Social Theory* 4 (1983), 253-88; Talcott PARSONS, III, *Weber's 'Economic Sociology'*, in 'Introduction' to Max Weber, *The Theory of Social and Economic Organization* (New York: Oxford University Press, 1947), 30-55; Gianfranco POGGI, *The Conceptual Context, in Calvinism and the Capitalist Spirit: Max Weber's Protestant Ethic* (Amherst: University of Amherst

Press, 1983), 13-26; and Johannes WINKELMANN, *Wirtschaft und Gesellschaft. Erläuterungsband* (Tübingen: J.C.B. Mohr, 1976), 35-43. Many of these interpretations do not look at Chapter 2 from the viewpoint of economic sociology, however. Kalberg, for example, is mainly interested in Chapter 2 so that he can develop a universal-historical typology for civilizational analysis; Poggi argues that Chapter 2 supplements the analysis in *The Protestant Ethic* through its focus on the way that capitalism operates; and so on. To what extent Chapter 2 in *Economy and Society* has been taught and lectured from is, of course, impossible to say. As to the United States, the following three cases may nonetheless be mentioned. The first case involves Frank Knight and Edward Shils, and is described by the latter in the following way: 'In the middle 1930s, [Frank] Knight conducted a seminar [at the University of Chicago] on the first chapters of *Wirtschaft und Gesellschaft*, in which I participated, where we studied the text line by line'. According to Daniel Bell, Alexander von Schelting taught a course in 1939 at Columbia University which was exclusively devoted to the two first chapters of *Economy and Society*: 'we spent the entire term... mostly on definitions of economic and rational actions'. Finally, Karl Polanyi discusses Chapter 2 in the mimeographed notes that he distributed to his students in 1947 at Columbia University (where he taught between 1947 and 1953). See Edward SHILS, *Tradition, Ecology, and Institution in the History of Sociology, Daedalus* 99 (Fall 1970), p. 823 (note 21); Bell in Richard SWEDBERG, *Economics and Sociology* (Princeton: Princeton University Press, 1990), p. 217; Karl POLANYI, 'Appendix', in *Primitive, Archaic and Modern Economies* (Boston: Beacon Press, 1971), 120-38. As far as I know, no economist has ever commented on Chapter 2, including the Austrian economists who were very interested in Weber's work.

Economy and Society) (7). Parsons' text is still worth reading, but it is also clear that it has aged on a few points (8). In brief, 'Sociological Categories of Economic Action' has not received the attention it deserves.

I. *The general structure of 'Sociological Categories of Economic Action'*

What I propose to do in this article is to make a first sorting of the multitude of material that can be found in 'Sociological Categories of Economic Action'. As the reader will soon notice, this text is very complex and the connections between its various arguments and definitions are by no means obvious. To these difficulties should be added that Weber wrote in great haste and in a time and country where economic discourse was very different from what it is today. What is needed in order to raise the general knowledge about Chapter 2 of *Economy and Society* to, say, the same level as that of Chapter 1 ('Basic Sociological Terms'), is clearly that a number of scholars decide to pay more attention to it.

'Sociological Categories of Economic Action' ('*Soziologische Grundkategorien des Wirtschaftens*') is the size of a small book (121 pages in the original German edition from 1921) and divided into 44 paragraphs. Each paragraph is devoted to a concept or a topic, and is typically divided into main text and commentary. Weber's purpose in this text, he says, is not to supply concrete explanations in 'flesh and blood', but to present a sociological typology that can be used to analyze the economic sphere (9). Weber starts out in 'Sociological Categories of Economic Action', just as in Chapter 1 in *Economy and Society*, with the most basic unit of analysis, the action of a single individual who in his or her behavior is oriented to the behavior of others. Weber thus makes use of methodological individualism but adds a social dimension to it. The exposition in Chapter 2 then progresses to more advanced forms, first simple interactions between a few individuals (e.g. in an exchange), and then to more complex forms of interactions, such as economic organizations of various kinds. Weber also discusses macrophenomena, such as different types of economies—market economies and planned economies. Throughout 'Sociological Categories of Economic Action' the focus is on the modern economy, that is, on the production, consumption and distribution of economic goods and services. The economy is, in other words, conceptualized as if it constituted its very own sphere, even though it

(7) See 'III. Weber's 'Economic Sociology'', in Talcott PARSONS, 'Introduction' to Max Weber, *The Theory of Social and Economic Organization*, 30-55.

(8) For an effort to add to Parsons' study, see Richard SWEDBERG, *Max Weber and the Idea of Economic Sociology* (Princeton: Princeton University Press, forthcoming in the fall of 1998). In this work I essentially try to map out

the following parts of Weber's economic sociology: (1) the economy; (2) the economy and politics; (3) the economy and law; and (4) the economy and religion. I also discuss in quite some detail *Grundriss der Sozialökonomik* and discuss how the Weberian approach to economic sociology relates to the current paradigm in this field.

(9) Weber, *Economy and Society*, p. 116.

is linked to other spheres, especially to the political one. Weber touches on the relationship of the economy to politics as well as to law in this text, but there is no systematic account of these relationships. Weber had planned to include such an account in *Economy and Society* but never had the time to write it (an early version can, however, be found in Part II of *Economy and Society*).

'Sociological Categories of Economic Action' can be divided into three parts. The first of these contains the very foundation of Weber's economic sociology and deserves to be studied carefully (§1-§14). This is where Weber defines what 'economic (social) action' is and how it differs from economic (non-social) action, as studied in economic theory. He also introduces a series of other basic concepts, such as economic opportunity, profit-making and capital accounting. The first third of Weber's text represents its most interesting part and contains many new and important ideas for the student of economic sociology.

The second third of Weber's text is primarily devoted to the division of labor; this is also where Weber uses the concept of appropriation the most frequently (§15-§24). This part of Weber's text contains very long typologies, which are mainly of interest to the economic historian. The reader may pass over or just skim many of these paragraphs. The third and last part of Weber's text contains a mixture of some very rewarding and some less important material (§25-§41). To the latter, less important material belongs a long section on money and monetary policy, inspired by G.F. Knapp's *The State Theory of Money* which Weber deeply admired (§32-§36a). These paragraphs are much influenced by the debate around the turn of the century and are somewhat passé today. But there also exist two very important paragraphs in this section: one on the conditions for a maximum of formal economic rationality in capital accounting (§30) and another on the different types of capitalism (§31). The last part of 'Sociological Categories of Economic Action' contains some useful paragraphs on different kinds of trade, economic motivation and the financing of political organizations. Someone encountering 'Sociological Categories of Economic Action' for the first time, may however want to start out with the following paragraphs: 1-11, 14-15, 30-31, 41.

II. *Economic action, social economic action and rationality*

The foundation for Weber's approach to economic sociology is laid in the two first paragraphs: 'The Concept of Economic Action' (§1) and 'The Concept of Utility' (§2). Both of these paragraphs deserve to be read very carefully. The main text of the first paragraph is just a few lines long, but is followed by several pages of dense commentary. The reason for adding so much commentary to so little text is that 'Sociological Categories of Eco-

conomic Action' is written in a very concentrated manner, a bit like legal writing. In most cases this way of writing does not present much of a problem, and one simply has to slow down one's reading. At times, however, the reader may wish that he or she had the same capacity to focus on Weber's text as Alfred Schutz, who according to his biographer 'could sit for hours in order to think out the meanings and implications of formulations that occurred in one dense paragraph of *Wirtschaft und Gesellschaft*' (10).

The key message in the two first paragraphs is that economic sociology, just like economic theory, analyzes economic action or action propelled by the material interests of the actor, but that it also takes a second element into account, namely that the actors orient their actions to other actors. Action is defined as behavior to which the actor attaches meaning (11). According to Weber's scheme, economic (social) actions are consequently to be explained *both* by the material interests that the actor pursues *and* by the fact that this pursuit is oriented to the behavior of others. The basic proposition of Weber's economic sociology is the following: *propelled by interests (mainly material) the individual pursues utility, while taking the behavior of other actors into account* (see Figure 1).

In §1 Weber defines what constitutes economic action, and in §2 he supplies a definition of what he means by utility. Although the title of Weber's text refers to categories of 'economic action', he actually starts out from a broader concept, namely from 'economically oriented action'; and he then presents 'economic action' as a subcategory of economically oriented action (12). More precisely, economic action does not use violence, and it has an exclusively economic goal (see Figure 2). While economically oriented action is characteristic of non-industrial societies, economic action is typical of modern society; and this is why Weber assigns priority to it in the title of his text. All economic activities in modern capitalism, however, do not necessarily fall into the category of economic action. Many actors pursue economic goals as part of some larger enterprise, including those who are in charge of the state. Violence is also used in modern society—by different actors—to gain economic advantages.

In the first paragraphs of 'Sociological Categories of Economic Action' Weber attempts to draw a line between economic theory and economic sociology. Both of these are centered around utility, but they nonetheless differ on several accounts. For one thing, economic sociology covers a much broader area than economic theory. While economic sociology deals with economically oriented action as well as with economic action, economic theory only deals with the latter. As opposed to economic theory, economic sociology also includes economic power in its analysis ('power of control

(10) Helmut WAGNER, *Alfred Schutz: An Intellectual Biography* (Chicago: University of Chicago Press, 1983), p. 15.

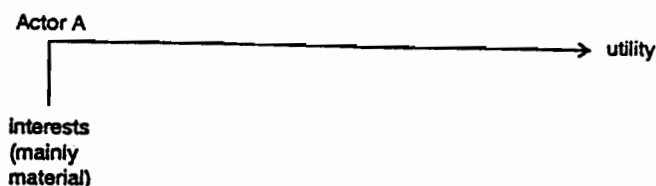
(11) The attentive reader will recall that sociology, as opposed to economics, also studies actions driven by habits and emotions (see

e.g. *Economy and Society*, 24-6). While this must not be forgotten, it is not central to the argument just developed in the text.

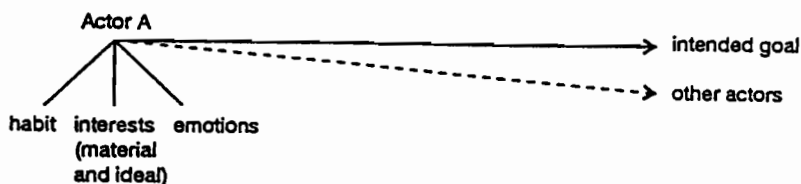
(12) The German terms are 'wirtschaftlich orientiertes Handeln' and 'Wirtschaften'.

FIGURE 1. *Economic action, social action and economic social action according to Weber*

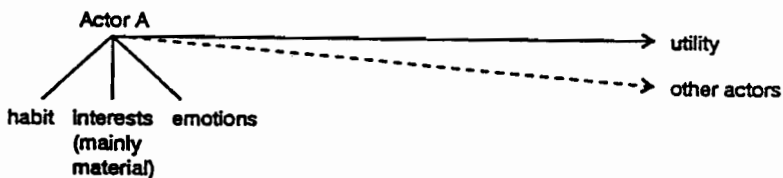
A. Economic Theory
(economic action)



B. Sociology
(social action)



C. Economic Sociology
(economic social action)



Source: Weber, 'Sociological Categories of Economic Action', in *Economy and Society*, 63-69. See also 1-24.

Comment: In his sociology Weber attempts to combine an interest-driven type of analysis with one that takes social behavior into account. Economic theory, in his view, analyzes situations where the actor is driven by (material) interests, aims at utility but does not take the behavior of other actors into account (*economic action*). Sociology, on the other hand, looks at action driven by ideals as well as by material interests and which is also oriented to the behavior of others (*social action*). Economic sociology focuses on *economic social action*, that is, action which is driven mainly by material interests, which is oriented to utility, *and* which takes other actors into account. Sociology also takes habits and emotions into account.

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FIGURE 2. *Economic action versus economically oriented action, according to Weber*

	VIOLENCE NOT USED	VIOLENCE USED
MAIN GOAL IS ECONOMIC	economic action	economically oriented action
ECONOMIC CONSIDERATIONS ARE TAKEN INTO ACCOUNT	economically oriented action	economically oriented action

Source: Weber, 'Sociological Categories of Economic Action', in *Economy and Society*, 63-5.

Comment: 'Economic (social) action' and 'economically oriented (social) action' constitute two basic concepts in Weber's economic sociology. In economic action, violence is not used and the orientation is primarily to economic ends. In economically oriented action, the goal is economic but violence is used or the goal is not economic but economic considerations are taken into account. Economic theory studies exclusively economic (non-social) action, while economic sociology looks at economic (social) action as well as at economically oriented (social) action.

and disposal', in Weber's terminology). Finally, economic sociology—but not economic theory—exclusively looks at *economic (social) action*, that is, economic action which is oriented to the behavior of other actors. This last qualification, to repeat, is absolutely crucial to the constitution of economic sociology. For clarification on this last point, Weber refers to Chapter 1 in *Economy and Society*, where he discusses these matters in more detail (13). The reader may also want to take another look at Figure 1; economic action is similar to economic social action, as depicted there, except that it is *not* oriented to the behavior of others.

Paragraph 2 ('The Concept of Utility') contains a discussion of what the economic part of economic (social) action is all about, namely 'the satisfaction of a desire for 'utilities''. Weber avoids using the formulation 'satisfaction of needs', primarily because he also wants to include profit-making in

(13) In particular, reader may want to consult pages 4 and 22-24 in *Economy and Society* as well as an earlier discussion of the same issue in: Some Categories of Interpretive Sociology (1913), *Sociological Quarterly* 22 (Spring 1988), 151-80. In *Economy and Society* Weber says that 'sociology... is a science concerning itself with the interpretive understanding of social action and thereby of its course and consequences', and that 'action is "social" insofar as its subjective meaning takes

account of the behavior of others and is thereby oriented in its course' (p. 4). In his 1913 essay Weber similarly states: 'Action specifically significant for interpretive sociology is, in particular, behavior that: (1) in terms of the subjectively intended meaning of the actor, is related to the *behavior of others*, (2) is *codetermined* in its course through this relatedness, and thus (3) can be intelligibly *explained* in terms of this (subjectively) intended meaning' (p. 152).

the definition of what constitutes economic action. There are some interesting twists as well to the way that Weber uses the concept of utility. For one thing, he does not portray utility as an objective quality; it is instead described as the use to which an object or a human service can be put. Weber also makes the important point that utility ultimately only constitutes an *opportunity* (Ger. *Chance*) to use something (14). §2 contains a formal definition of what an 'economic opportunity' is, and throughout Weber's discussion in this whole text he repeatedly comes back to the idea of opportunity. To Weber nearly everything that happens in the economy is about opportunities: finding opportunities, excluding others from opportunities, and using opportunities for one's own purposes.

Already in paragraphs 3 and 4 Weber introduces the theme of rationality, which plays a key role in his economic sociology. In §3 Weber draws a line between the two most common types of economic and economically oriented action: those which are *traditional* and those which are *rational*. While rational actions are common in the modern economy, Weber emphasizes that they usually have a considerable traditional element to them. The way that Weber talks of rationality in §3 points to one of the characteristic features of his analysis of economic rationality, namely that the degree of economic rationality, in a group or in a society, can vary over time. Economic rationality, in other words, is a variable to the economic sociologist, not an assumption as it is to the economist (15). Much of Weber's work in economic sociology represents an attempt to explain under which conditions economic rationality comes into being and when it is blocked or prevented from developing. As examples of this one can mention the following titles in Weber's text: 'Substantive Conditions for Formal Rationality in a Money Economy' (§13) and 'The Conditions of Maximum Formal Rationality of Capital Accounting' (§30).

A second innovative aspect of Weber's analysis of rationality is his attempt to distinguish between two different kinds of economic rationality (§9 'Formal and Substantive Rationality of Economic Action'). 'Formal (economic) rationality' has to do with the extent to which quantitative calculations are used in economic affairs; and 'substantive (economic) rationality' is focused around attempts to satisfy people's needs for provision, according to some ultimate value. Weber notes that the former criterion—the extent of quantitative calculation—is straightforward enough, while the latter is far more difficult to handle. Many phenomena are characterized by a mixture of formal and substantive economic rationality. While a capitalist economy, for example, would have a tendency to be high

(14) Weber also gives the term 'Chance' other meanings in Part I of *Economy and Society*, especially as probability. The German word 'Chance', it should be added, is mis-translated a number of times in *Economy and Society* as 'advantage', while the proper translation is usually 'opportunity'.

(15) 'The central trouble with discussions of rationality is that we are taught by economists and decision theorists to treat rationality as an *assumption*... but in the real world rationality is a variable to be explained', Arthur Stinchcombe, 'Rationality and Social Structure', p. 5 in *Stratification and Organization*.

on formal rationality and low on substantive economic rationality (from the viewpoint of, say, economic equality), a socialist economy might be low on the former and high on the latter.

III. *Money, the market, and economic systems*

Money is defined in §6 ('Media of Exchange, Means of Payment, Money'), while monetary theory and the relationship of money to the state is discussed towards the end of 'Sociological Categories' (§32-36a). Weber is not interested, he states, in developing a monetary theory, but only to map out the sociological consequences of using money. One of these, he says, is that money allows for better precision in calculations and hence increases formal rationality. Elsewhere in the text Weber introduces two other important forms of economic calculation: calculations in kind (§12) and capital accounting or calculations of the type associated with systematic profit-making (§11). All of these forms of economic calculation, Weber points out, can only exist if society is organized in a certain way.

In another paragraph Weber argues that money is a 'weapon' in the economic struggle and that money prices express 'the struggle of man against man' as well as the power relations between economic actors (§13) (16). Weber writes: 'They [that is, prices] are instruments of calculation only as estimated quantifications of relative chances in this struggle of interests' (17). Exactly how this emphasis on struggle in the formation of prices is to be reconciled with marginal utility theory, to which Weber approvingly refers a number of times throughout his text, is not discussed. What Weber means, however, is that marginal utility is useful in determining prices on a theoretical level since it gives a helpful ideal-typical picture of how prices are formed. In a sociological-empirical analysis, on the other hand, allowance also has to be made for the impact of social interaction between the buyer and the seller (18).

The idea that certain aspects of economic reality can be seen as a struggle ('*Kampf*') between economic actors, each with different interests, pervades Weber's economic sociology. In a passage in §4 Weber analyzes 'the struggle over exchange', and suggests that it can be seen as a combination of two different types of struggle. On the one hand, there is 'the struggle over the price' between the two actors involved in the exchange. This struggle typically ends in a compromise, which is decided through bargaining. But before the struggle over the price can begin, another type of struggle has to be settled, and this is the one between the sellers over who will be the actual seller, and between the buyers over who will be the actual buyer ('the struggle between competitors', in Weber's terminology).

(16) Weber, *Economy and Society*, p. 108.

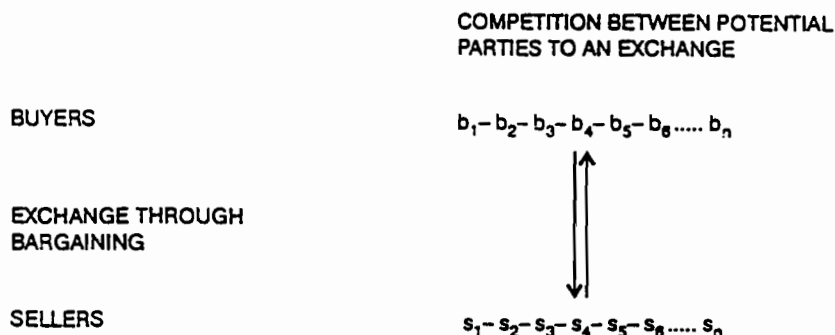
(17) *Ibid.*

(18) Weber argues to this effect in an important letter to Robert Liefmann, dated

March 9, 1920. How this link between marginal utility theory and economic sociology is to be worked out in more detail is, however, not discussed anywhere in Weber's work.

The market, as Weber conceptualizes it, consists of repeated acts of exchange, and is often to be found in one physical area (see Figure 3). The

FIGURE 3. *The social structure of markets, according to Weber*



Source: Weber, 'Sociological Categories of Economic Action', in *Economy and Society*, 82-5. See also 635-40.

Note: The heart of Weber's analysis of the market consists of the idea that its core is made up of one type of economic action—exchange—which is simultaneously oriented in *two* different directions: towards one's exchange partner ('struggle over the price') and towards one's competitors ('struggle between competitors'). Dynamics can be introduced into Weber's basic model through the idea that social relationships in the market can be either open or closed to outsiders. Together with Alfred Marshall's famous chapter 'On Markets' in *Principles of Economics* (1890), Weber's analysis represents a high point in the effort to understand the social structure of markets in the early economics literature.

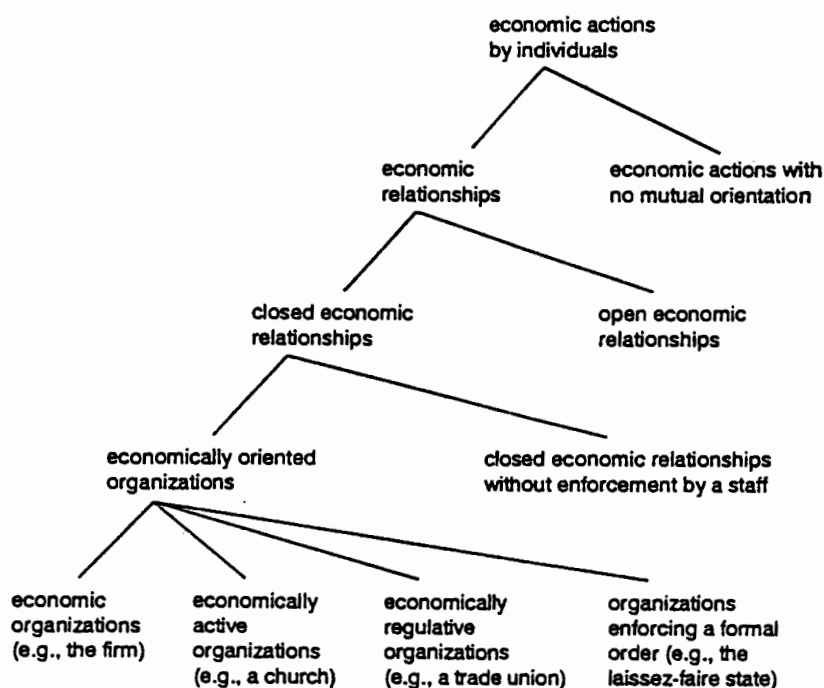
exchanges that take place in a market can only be rational, Weber says, to the extent that they are not regulated. This regulation is typically due to tradition, law or convention (§8. 'The Market'). Weber, however, adds that formally free markets may be regulated as well, namely through the economic power of certain actors. This constitutes a case of 'substantive regulation', in Weber's terminology.

One paragraph in 'Sociological Categories of Economic Action' is devoted to economic organizations and contains a simple but useful typology (§5). 'Economic organizations', in Weber's terminology, are organizations where activity is centered around independent economic action; and 'economically active organizations' are organizations whose activities are primarily non-economic, but which nonetheless include economic activities. There exist, in addition, organizations which mainly regulate economic activities ('economically regulative organizations'), and organizations whose task is to insure that economic organizations can exist in the first place ('organizations enforcing a formal order'). The paragraph on economic organizations is also interesting in that it indicates, if read in combination with some other

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passages in *Economy and Society*, how Weber's typology of economic organizations is constructed on the foundation of individual economic action (see Figure 4).

FIGURE 4. *How economic actions by individuals become economic organizations*



Source: Max Weber, 'Sociological Categories of Economic Action', in *Economy and Society*, 74-5. See also 48-50, 341-43.

Comment: Collective social units do not have an independent existence, according to Weber, but consist of actions by individuals. The figure shows how Weber constructs his concept of economic organization on the basis of economic (social) action. Like any organizations, economic organizations consist of closed social relationships which are enforced by a staff.

The most important economic organization in modern society, according to Weber, is the firm. From an action viewpoint, it consists of systematic and rational forms of profit-making (§11). While Weber discusses the internal organizational structure of the firm in his famous passages on bureaucracy in *Economy and Society*, there is something else which defines the essence of the firm to Weber, and that is capital accounting. This type of accounting is

characterized by a calculation of the assets before as well as after the economic transaction in question. Weber also compares the firm to the householding unit, which in principle aims at consumption and not at profit-making (§10). While a firm attempts to make a 'profit' and to augment its 'capital'; a householding unit produces a 'rent' and attempts to increase its 'wealth'. The impact of the firm is revolutionary on the economy, Weber says, while that of the householding unit is conservative (19).

Towards the end of the first third of 'Sociological Categories of Economic Action', Weber devotes a paragraph to economic systems (§14 'Market Economies and Planned Economies'). While the basic principle of market economies is profit-making, planned economies are constituted on the basis of householding. Both can exist in more or less rational forms, Weber notes, but since planned economies do not have effective prices at their disposal, it is extremely difficult for them to develop a high degree of formal economic rationality. The reason for this is that calculations in a planned economy must, in the last hand, be carried out through calculations in kind. Advanced substantive rationality, on the other hand, is fully possible within a planned economy. As earlier noted, a socialist economy may well be substantively rational (say, from the viewpoint of providing materially for its subjects), but it will have more difficulty in reaching a high degree of formal economic rationality.

IV. *On the division of labor and some intermediary paragraphs*

While the paragraphs that make up the first third in 'Sociological Categories of Economic Action' (§1-14) deserve to be read with attention, the reader may want to skim most of the paragraphs in the second third (§15-24a). These mainly deal with the division of labor and various forms of appropriation or property that have existed throughout history. Most of the text in these paragraphs is devoted to a discussion of different kinds of property that have developed in agriculture, mining, industry and so on; and they are presented in a very concentrated and formalistic manner. While these discussions may well be useful to the specialist in economic history or to anyone working on different types of property, they are of less interest to the average student of economic sociology.

One exception is §15, which is well worth studying since it contains a general discussion of the division of labor or, as Weber phrased it (in the tradition of German economics), the division and *combination* of labor (20).

(19) Weber, *Economy and Society*, p. 205.

(20) It was originally Friedrich List who in the 1840s suggested that work was not only divided but also combined ('Teilung der Arbeit' versus 'Vereinigung der Arbeit'). See Friedrich LIST, *The National System of Political Economy* (New York: Longmans, Green

and Co, 1916), p. 121. List's idea was later popularized through Karl Bücher's influential *Die Entstehung der Volkswirtschaft* (1893 and further editions). See Karl BÜCHER, *Industrial Evolution* (New York: Augustus M. Kelley, [1901] 1968), 244-81.

Weber distinguishes between three types or aspects of the division of labor: technical, economic and social. The state of technology, Weber notes, implies a certain division as well as a certain combination of labor (*technical aspects of the division of labor*). Once a machine or a tool has come into being, it can only be used in a certain way. Some machines, for example, demand that the same movements be repeated over and over again by the worker, while others allow for a certain independence. Whether an economic unit aims at profit-making or at householding will also be important in this context, Weber notes (*economic aspects of the division of labor*). He says nothing more about the economic aspects of the division of labor than this, but it is clear that self-supporting economic units, say *oiki*, typically attempt to produce everything themselves, while capitalist firms must specialize in order to sell on the market. An economy which consists of units that produce everything for themselves will obviously result in a division of labor which differs from the one in an economy where the provision for needs take place via the market. When Weber, finally, speaks of *the social aspects of the division of labor* he is referring to another important aspect of the economy. Some economic units, he says, decide key issues themselves, and also appoint their own chief and staff, while in other economic units outsiders are in charge of these decisions. Firms in a socialist or planned economy, for example, are low on independence in all these regards, as opposed to their counterparts in a capitalist economy.

Both the social and the economic aspects of the division of labor are furthermore affected by the existing forms of appropriation. According to Weber, the following items and activities can be appropriated in a number of different ways: what labor produces, managerial functions, and the material means of production. For the concept of appropriation itself, Weber refers the reader to what he says about open and closed relationships in Chapter 1 of *Economy and Society*. Appropriation, Weber here says, represents a form of closed social relationships or relationships to which outsiders do not have access. More precisely, appropriation is defined as a situation when in a closed social relationship opportunities are monopolized on a permanent basis and have become more or less alienable (21). To Weber, it can be added, both 'rights' and 'property' represent forms of appropriation. Rights are defined as 'appropriated opportunities', and property as 'appropriated rights which are enjoyed by individuals through inheritance or by hereditary groups, whether communal or associative' (22).

V. Types of capitalism (§31) and related topics

The third and last part of 'Sociological Categories of Economic Action' contains a number of useful paragraphs, including an extremely important one on the different types of capitalism (§31). Most of the paragraphs in this

(21) Weber, *Economy and Society*, p. 44.

(22) *Ibid.*

section can be read without too much difficulty and with quite a bit of profit, except for paragraphs 32-36a which are devoted to a discussion of monetary theory, inspired by G. F. Knapp's ideas. These paragraphs can in my mind be skimmed or just passed over. Weber deeply admired G. F. Knapp's *The State Theory of Money* (1905; English translation of the 4th edition, 1921), which he regarded as a master piece. Knapp's main novelty and achievement was no doubt that he so clearly perceived the crucial role that the modern state plays in the creation of money and in monetary affairs more generally. It is true, as has often been pointed out (and also by Weber), that Knapp tended to exaggerate the power of the state in these matters and to ignore the role of the market. What makes the section on Knapp and monetary theory in 'Sociological Categories of Economic Action' of so little interest, however, is that these pages are dominated by questions which are largely passé today even though they were of great interest around the turn of the century: for example, the gold standard versus the paper standard, monometalism versus multimetalism, and the like. Knapp also attempted to create a totally new terminology, which was soon forgotten but which Weber enthusiastically embraced and which makes these passages particularly demanding to read.

Useful and easy paragraphs in the last section include the ones on trade (§28-29a), communism (§26) and motivation to work (§25 and §41). The paragraphs on trade introduce several helpful concepts and also contain an interesting passage on speculation. There exists 'rational calculation', Weber argues, as well as 'speculative calculation'—but the line between the two is fluid, and is ultimately a question of degree of rationality. Communism, he says, is characterized by 'non-economic attitudes' and typically takes one of the following three forms: household communism, military communism (of comrades in arms), and religious communism (based on love and charity). Political communism of the Marxist type was viewed by Weber as a modern and peculiarly rational form of communism.

The two paragraphs on motivation to work exemplify the great realism that characterizes Weber's economic sociology. The two main ways in which the labor force has been motivated throughout history, he says, are 'involuntary compulsion' and 'voluntary compulsion'. Slavery would be an example of the former, and labor in a capitalist society an example of the latter. Absolute values, such as religious values, can under certain circumstances affect the motivation to work, according to Weber, and the reader may recall his argument about ascetic Protestantism in *The Protestant Ethic*. Weber was, however, sceptical of the idea that political ideologies can be very effective in motivating the labor force.

The two most important paragraphs in the last part of 'Sociological Categories of Economic Action' both deal with capitalism (§30 and §31). The former contains a list of the conditions which are necessary for there to be a maximum of formal economic rationality in the realm of production. These conditions include freedom to enter into contracts, market freedom, complete separation between the firm and the household, free labor and a

rational technology. To this Weber adds—and this is of special interest—that the political and legal systems have to be of a certain kind. More precisely, there has to be 'a formally rational administration and law' or, as Weber puts it, 'complete calculability of the functioning of public administration and the legal order and a reliable purely formal guarantee of all contracts by the political authority' (23).

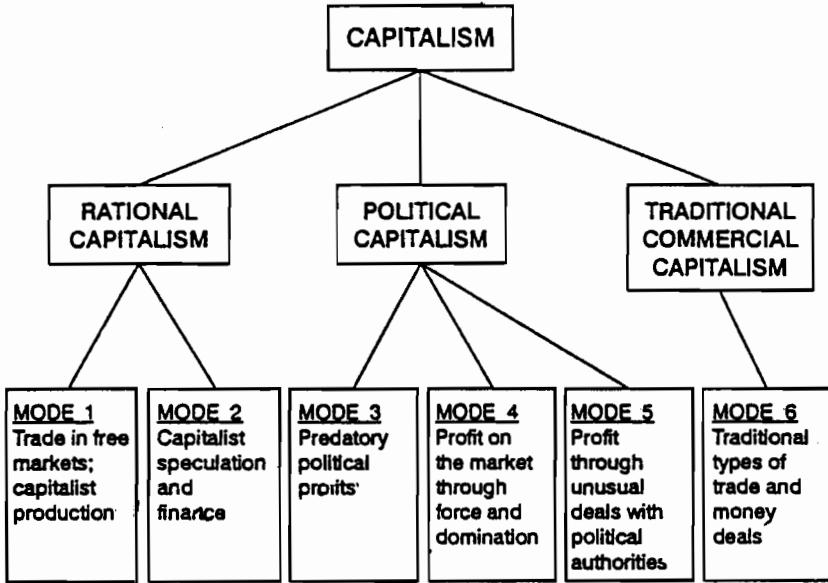
Paragraph 31 ('The Principal Modes of Capitalist Orientation to Profit-Making') may look dry and difficult at first, but is well worth studying since it contains a fascinating typology of different types of capitalism. It should also be seen as Weber's most authoritative statement about the different types of capitalism. Weber starts out by distinguishing between six different modes of capitalist profit-making, which are then grouped into three major forms of capitalism. Two of the six modes have only emerged in the West, Weber says, and these constitute occidental or rational capitalism. The other four have been around for thousands of years in all parts of the world, and Weber suggests that three of these be called 'politically oriented capitalism' (usually referred to as 'political capitalism' in the secondary literature). The fourth and last type of profit-making is not given a name but can be labelled 'traditional commercial capitalism' (see Figure 5).

Two of Weber's three types of capitalism are particularly suggestive and also applicable to today's situation, namely political capitalism and rational capitalism. The former represents a type of capitalism which is centered around some link to those in political power, and it is this contact that is the key to profit. Historical examples include tax-farming and commercial monopolies granted by the king; present-day examples would be farm subsidies and contracts between the state and the weapon industry. The fortunes of political capitalism stand and fall according to what the state or some political actor does; it represents a speculative and unstable form of capitalism, which is often unpredictable and also economically conservative. Finally, there exist some obvious parallels between Weber's notion of political capitalism and the concept of rent-seeking in modern economics, even if they are not identical.

Rational capitalism is very different from political capitalism. Its basic unit is the autonomous, rational firm, which demands free labor and a predictable state administration as well as a predictable legal environment. The account that is given of rational capitalism in §31 is minimal in terms of details, and should be complemented with what Weber has to say on this topic elsewhere in his work. There is, first and foremost, *General Economic History* which contains a detailed and engaging account of the rise of Western capitalism, full of that 'flesh and blood' which Weber felt he had to exclude from 'Sociological Categories of Economic Action'. The reader may also want to consult the interesting discussion of different forms of capitalism

(23) Weber, *Economy and Society*, p. 162.

FIGURE 5. *The main types of capitalism and the principal modes of capitalist orientation of profit-making, according to § 31 in 'Sociological Categories of Economic Action'*



Source: Max Weber, § 31. 'The Principal Modes of Capitalist Orientation of Profit-Making', in 'Sociological Categories of Economic Action' in *Economy and Society*, 164-66.

Comment: Weber does not give a general definition of capitalism in 'Sociological Categories of Economic Action', but talks instead of six 'principal modes of capitalist orientation of profit-making' (§ 31). These are then divided into rational capitalism (n° 1-2), political capitalism (n° 3-5), and what can be called traditional commercial capitalism (n° 6). Different types of capitalism typically coexist and do so, for example, in modern capitalism, which is predominantly of a rational character.

that can be found in the beginning of *The Protestant Ethic* ('Author's Introduction', 17-27) (24).

The passages in *General Economic History* and in *The Protestant Ethic* are primarily useful in that they provide some historical examples which illustrate the definition of rational capitalism in §31. But they are also useful in

(24) Weber, *The Protestant Ethic and the Spirit of Capitalism* (London: Allen & Unwin, 1930), 17-27. The text entitled 'Author's Introduction' was originally published as the

introduction to the first volume of Weber's *Collected Essays in the Sociology of Religion* and was added to the English translation of *The Protestant Ethic* by Talcott Parsons.

that they help to dispel the notion, which is implicit in Weber's popular metaphor of 'the iron cage', that modern rational capitalism is a very stable and basically unbreakable economic system. Weber was rather of the opinion that modern capitalism was dynamic in its nature and characterized by powerful inner contradictions, which might one day lead to its destruction. Weber's expression, 'the iron cage' refers, in a strict sense, to the way that the individual experiences his or her place in the modern capitalist economy; it does not, however, imply that this economy, on a macrolevel, is non-dynamic or that it will last forever.

A few other paragraphs in the last third of 'Sociological Categories' also add to the analysis of rational capitalism in §31. This is, for example, the case with paragraphs 37-39, which are devoted to the way that political organizations are financed and how this affects the economy at large. Political organizations can be paid for in a variety of ways, Weber says, for example through benefices, taxation, tax-farming and productive enterprises owned by the state. In the chapter on domination in *Economy and Society* (Ch. 4 in Part I) Weber provides a much fuller and conceptually more elaborate account of the different ways in which the three major ideal-typical forms of political authority—traditional, charismatic and legal authority—are financed, and how this financing affects the economy as a whole. In the just mentioned paragraphs in 'Sociological Categories of Economic Action' Weber similarly notes that certain ways of financing political organizations encourage political capitalism, while others encourage rational capitalism. Tax-farming would be an example of the former, and rational taxation an example of the latter.

The very last paragraph in 'Sociological Categories of Economic Action' is entitled 'The Mainspring of Economic Activity' (§41) and contains a discussion of some topics which are also discussed in paragraph 25 'Conditions Underlying the Calculability of the Productivity of Labor'. This is where Weber, for example, points out that it is not possible to significantly alter the motivation to work through a political ideology. Weber also enumerates and discusses the different types of income from work and property, which can be found in history, and makes a very interesting comment in this context. All the different types of incomes, he says, tend to change the economic system in two fundamentally different ways. Some of them 'have a dynamic, revolutionary significance for economic life', and these include profit from business and wages based on piece rates (25). Ordinary wages, salaries and rents, on the other hand, have 'a static, conservative influence on economic activity' (26). Modern capitalism contains both of these types of income, Weber says elsewhere in his work, where he also notes that as long as dynamic elements predominate in the economy, there will be some room for human liberty and dignity to exist. If rents and related forms of income push out and replace these dynamic forms, however, the economy will ossify and regress—and strengthen the

(25) Weber, *Economy and Society*, p. 205.

(26) *Ibid.*

authoritarian forces in society. Figure 6 is my attempt to summarize this broader argument about a rentoriented versus a profit-making type of economy.

FIGURE 6. *The traditional—and future?—rentoriented economy and the modern profit-making economy*

	THE TRADITIONAL RENT-ORIENTED ECONOMY	THE MODERN PROFIT-MAKING ECONOMY
ECONOMIC PRINCIPLE	householding, leading to economic traditionalism	profit-making, leading to constant economic change
MAIN TYPE OF INCOME FOR THE DOMINATING ECONOMIC GROUP	rent (based on wealth)	profit (based on capital)
CLASSES	property classes (rentiers, middle classes, unfree)	commercial classes (entrepreneurs, professionals, workers)
CONFLICT LEVEL	little dynamics; status groups are strong and there might be class struggle	much dynamics; class struggle, possibly of a revolutionary kind
POLITICAL SYSTEM AND PRINCIPLE OF LEGITIMATION	repressive political system; traditional domination	separation of political and economic power; possibly legal domination

Source: Weber, 'Sociological Categories of Economic Action', in *Economy and Society*, 87-90. See also 302-05.

Comment: The two main principles of the human economy are householding and profit-making, according to Weber, and they underpin very different types of economic systems on a macro level. In what I here call the traditional rent oriented economy, search for rent by the ruling strata is central to the economic system, while it is search for profit in the modern profit-making economy. Concrete economies will often have elements of both rent and profit. The traditional economy tends to be repressive and non-dynamic; this type of economy was common in the past, and it may also return in the future, according to Weber. The profit-making economy is historically young; it is dynamic, and it has the potential for legal domination (including democracy) since it presupposes a structural separation between political and economic power.

VI. *The translation of 'Sociological Categories of Economic Action' into English and some remaining research tasks*

A few words should finally also be said about the translation of 'Sociological Categories' into English. It was made in the late 1930s by Talcott Parsons, who based his translation on a draft by a young English economist, A.M. Henderson. Parsons originally thought that Part I of *Economy and Society* ought to be published in three separate volumes, one for each of its main chapters, with extensive introductory material in each of the volumes (27). The reason for splitting up Part I of *Economy and Society* in this manner, Parsons said, was that the reader would not be able to digest three such concentrated texts, if they all appeared in one single volume. However, this is not what happened; and the translation of the chapters in Part I of *Economy and Society* were all published in one physical volume.

The history of the translation of *Economy and Society* is as follows. In the late 1930s Friedrich von Hayek, then at the London School of Economics, asked A.M. Henderson to make a draft translation, under his supervision, of the two first chapters of Part I of *Economy and Society* (28). In 1939 Hayek approached Parsons for his opinion about the translation, and was told that a 'drastic revision' was needed (29). The upshot was that Parsons offered to do the revision himself; Henderson lacked the needed capacity and had by then also been called into the Army. Parsons' condition for doing the revision was that the whole of Part I of *Economy and Society* was translated and that he would write the introduction himself. This was accepted, and Parsons was soon ready with his work, probably in late 1940. The economic historian

(27) There is also a Chapter 4 in Part I of *Economy and Society*—'Status Groups and Classes'—but it is only five pages long. In the mid-1930s Frank Knight and Talcott Parsons were discussing the possibility of translating *Economy and Society*, and Knight even commissioned one of his students to translate the section on the sociology of law. Another of Knight's students, Edward Shils, translated parts of Chapter 1, together with Alexander von Schelting. In a letter to Knight, dated June 5, 1936, Parsons wrote, 'The first part [of *Economy and Society*] seems to me almost too terribly abstract to attempt to translate. If it is done at all, it seems to me as I said above it ought to be with very copious commentary by a highly competent person. For that purpose it ought to be in three different volumes, one the general ideal type syste[m], one the economic material and the other the "authority" material' (Harvard University Archives HUG [FP] 42.8.2, Box 2; this material is cited with

permission of the Harvard University Archives).

(28) The role of Hayek in translating *Economy and Society* is recounted by Parsons in an article from the late 1970s. See Talcott PARSONS, 'The Circumstances of My Encounter with Max Weber', in Robert K. MERTON and Matilda WHITE RILEY (eds), *Sociological Traditions from generation to Generation* (Norwood: Ablex, 1980), p. 42. The correspondence between Hayek and Parsons, which Parsons refers to, is not to be located, either in the Parsons Collection at Harvard University or at the Hayek Collection at Stanford University. Parsons gave a slightly different version of the coming into being of the translation in the 1947 preface to *The Theory of Social and Economic Organization* (New York: Oxford University Press, 1947).

(29) Letter from Parsons to Edwin F. Gay, dated August 17, 1939 (Harvard University Archives, HUG[FP] 42.8.2, Box 3).

Edwin F. Gay had by then been asked to go through 'Sociological Categories of Economic Action', and Robert K. Merton had made copious notes on the whole translation (30). Due to World War II, however, Part I of *Economy and Society* was not published until 1947, and then under a title that Parsons had chosen himself, *The Theory of Social and Economic Organization*. The translation of 'Sociological Categories of Economic Action' was slightly revised by Claus Wittich, in connection with the publication in English of the 4th edition of *Wirtschaft und Gesellschaft* (1956), which took place in 1968. The publisher of the full set of *Economy and Society*, it may be added, was Swedish sociologist Hans Zetterberg, at the time in charge of Bedminster Press.

It is important to stress that a number of research tasks remain for those who consider 'Sociological Categories of Economic Action' a work to be taken seriously. Some of these were mentioned at the outset of this article, and a few more can be added here. The similarities between this text and Weber's lecture notes on economics from the 1890s are striking; and one would like to see a work that confronts 'Sociological Categories of Economic Action' with the *Grundriss zu den Vorlesungen über Allgemeine ('theoretische') Nationalökonomie* (1898). It would furthermore be interesting to try to see how some of Weber's ideas in 'Sociological Categories of Economic Action' fit into the general economic and sociological discourse of today. Weber's notion of political capitalism, as mentioned in connection with §31, comes for example, quite close to what today's economists call rent seeking. Some of the phenomena that Weber discusses in Chapter 2 also help to elucidate the rather vague term of 'social capital', which is so popular today. First and foremost, however, one would like to see the concepts and ideas in 'Sociological Categories of Economic Action' applied to empirical and theoretical research tasks by today's economic sociologists. Only in this way, I would argue, will they disclose their true potential.

RICHARD SWEDBERG

(30) Letters from Talcott Parsons to Edwin F. Gay, dated August 17, August 28, and November 13, 1939 (Harvard University Archives HUG[FP] 42.8.4, Box 3); personal communication from Robert K. Merton on July 11, 1996 in East Hampton. On August 17, 1939, Parsons wrote to Gay: 'You probably remember the very long and difficult second chapter, *Soziologische Grundkategorien des Wirtschaftens*. As you know, this chapter is full of classifications of forms of organization in the economic sphere, with examples drawn from virtually all periods of history. Weber's own use of terms is naturally best, with some modifications of his own on the literature of economic history to the writings of the historical school in Germany. Naturally these terms

raise many difficult problems of translation; and since I am only moderately familiar with the underlying literature and with the subject matter, at many points I am by no means certain that I have been able to find the best available way of rendering these things in English'. In 1947, the year when the translation was finally published, A.M. Henderson wrote to Parsons, 'Frankly, I embarked on it [the translation of Chapters 1-2 in *Economy and Society*] in the belief that a knowledge of German and economics was sufficient, and I am quite sure it was not'—letter from A.M. Henderson to Talcott Parsons, dated June 23, 1947 (Harvard University Archives, HUG[FP] 42.8.4, Box 14).